



Landsvirkjun

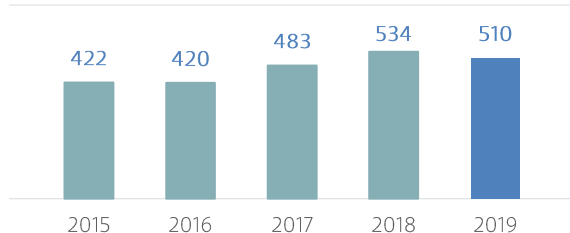
01.01.-31.12. 2019

Group Condensed Interim Financial Statements

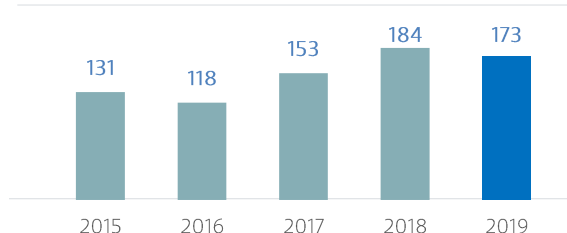


Key figures

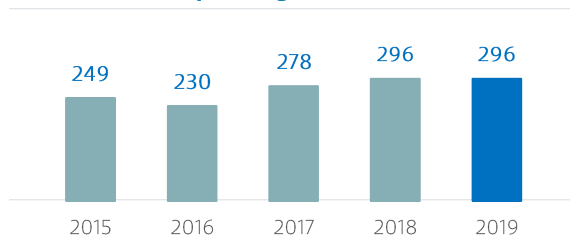
Operating revenues



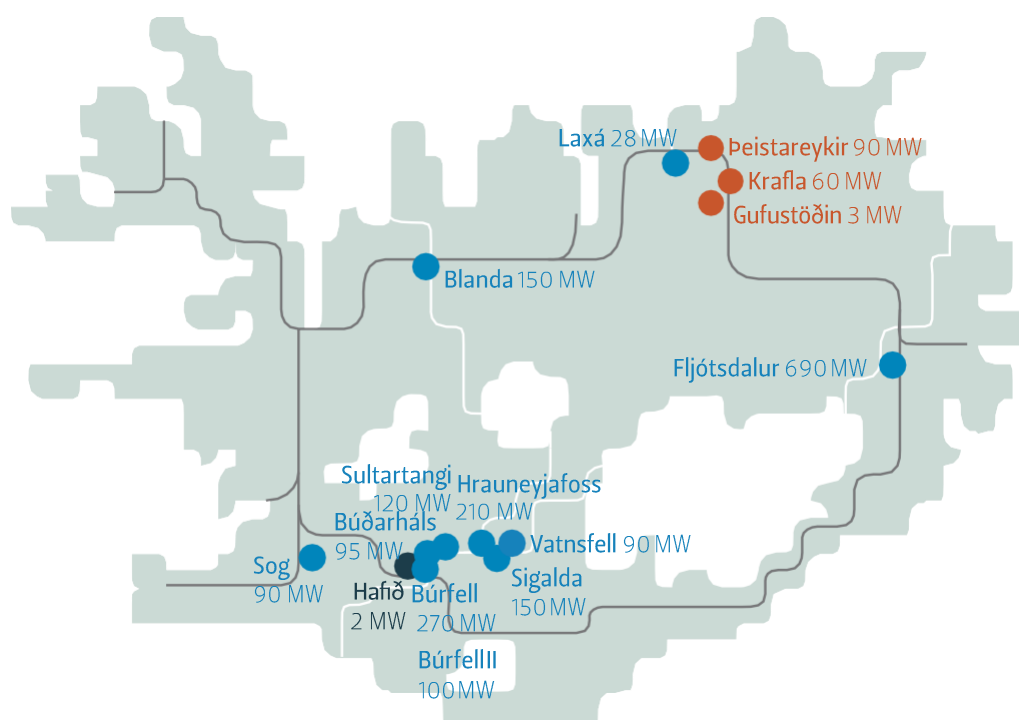
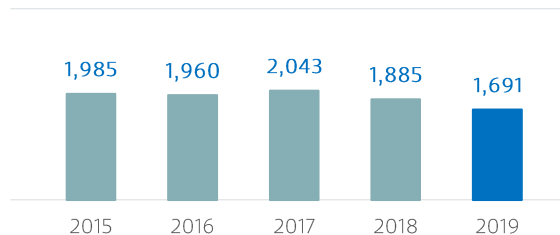
Profit before unrealised financial items



Cash flow from operating activities



Net debt



15
Hydropower stations



3
Geothermal stations



2
Windmills



2,146 MW
Capacity

S&P Global
Ratings
BBB

Moody's
Baa1



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Key figures - Unaudited

Management's presentation of the operation of Landsvirkjun

	2019	2018	2017	2016	2015
Operation					
Operating revenues	499,547	538,455	491,175	415,480	410,496
Realised aluminium hedges	10,047	(4,534)	(8,098)	4,890	10,956
Total operating revenues	509,594	533,921	483,077	420,370	421,452
Operating expenses	(134,307)	(144,041)	(137,503)	(118,630)	(99,932)
EBITDA	375,287	389,880	345,574	301,740	321,520
Depreciation and impairment loss	(134,779)	(125,448)	(127,086)	(118,571)	(115,554)
EBIT	240,508	264,432	218,488	183,169	205,966
Financial items	(67,231)	(80,178)	(64,844)	(60,045)	(73,418)
Associated companies	(27)	(179)	(228)	(5,448)	(1,921)
Profit before unrealised financial items	173,250	184,075	153,416	117,676	130,627
Unrealised financial items:					
Fair value changes in embedded derivatives	(1,323)	(49,410)	84,494	21,164	(59,925)
Fair value changes in other derivatives	(8,011)	24,878	(12,990)	(1,269)	5,466
Unrealised foreign exchange difference	8,290	21,014	(60,745)	(23,314)	47,657
	(1,044)	(3,518)	10,759	(3,419)	(6,802)
Profit before income tax	172,206	180,557	164,175	114,257	123,825
Income tax	(59,529)	(59,528)	(56,211)	(47,437)	(39,652)
Net Profit	112,677	121,029	107,964	66,820	84,173
Balance sheet					
Total assets	4,381,633	4,451,081	4,506,392	4,332,864	4,284,703
Equity	2,235,399	2,163,056	2,063,112	1,969,088	1,916,634
Liabilities	2,146,234	2,288,025	2,443,280	2,363,776	2,368,069
Net debt *	1,691,462	1,884,603	2,042,642	1,960,497	1,985,411
Cash flow					
Funds from operations (FFO)	312,322	316,336	282,774	235,602	240,354
Cash flow from operating activities	295,764	295,761	277,937	229,827	248,955
Investing activities	(82,420)	(150,864)	(253,740)	(172,277)	(77,486)
Financing activities	(218,261)	(151,876)	(45,282)	(59,305)	(235,465)
Liquidity					
Cash and cash equivalents at year end	110,487	116,278	126,544	144,534	142,127
Undrawn loans	180,000	353,155	421,363	472,448	360,824
Total liquidity	290,487	469,433	547,907	616,982	502,951
Key ratios					
Return on equity	5.2%	5.9%	5.5%	3.5%	4.9%
Equity ratio	51.0%	48.6%	45.8%	45.4%	44.7%
Interest cover (EBITDA/net interest expenses)	5.54x	4.76x	5.53x	5.15x	4.60x
FFO / net liabilities	18.5%	16.8%	13.8%	12.0%	12.1%
FFO / interest expenses	4.44x	3.72x	4.35x	3.80x	3.27x
Net debt / EBITDA	4.51x	4.83x	5.91x	6.50x	6.18x
Credit rating at year end without state guarantee					
Standard & Poor's	BBB	BBB	BBB	BBB-	BB+
Moody's	Baa1	Baa2	Baa3	Baa3	Ba1

* Net debt are interest bearing long-term liabilities less cash and cash equivalents

Quarterly statement 2019 - Unaudited

Management's presentation of the operation of Landsvirkjun, contd.

	Q1	Q2	Q3	Q4	Total
Operating revenues					
Power sales	107,129	103,833	90,030	108,723	409,715
Realised aluminium hedges	1,769	2,426	2,761	3,091	10,047
Transmission	21,180	19,554	18,490	20,888	80,112
Other income	3,079	748	1,450	4,443	9,720
	133,157	126,561	112,731	137,145	509,594
Operating expenses					
Energy production costs	10,773	10,658	11,417	15,125	47,973
Transmission costs	7,632	8,680	7,985	14,832	39,129
Cost of general research	2,276	2,181	2,680	2,975	10,112
Other operating expenses	10,025	9,300	7,925	9,843	37,093
Depreciation and impairment loss	33,696	33,704	33,400	33,979	134,779
	64,402	64,523	63,407	76,754	269,086
Operating profit	68,755	62,038	49,324	60,391	240,508
Financial income and (expenses)					
Interest income	843	846	468	548	2,705
Interest expenses	(18,198)	(17,783)	(18,091)	(16,328)	(70,400)
Realised foreign exchange difference	(902)	880	(446)	932	464
	(18,257)	(16,057)	(18,069)	(14,848)	(67,231)
Associated companies	(35)	(53)	(9)	70	(27)
Profit before income tax and unrealised items	50,463	45,928	31,246	45,613	173,250
Unrealised financial items:					
Fair value changes in embedded derivatives	6,842	(6,077)	(8,545)	6,457	(1,323)
Fair value changes in other derivatives	(5,002)	1,571	385	(4,965)	(8,011)
Unrealised foreign exchange difference	9,366	(947)	8,075	(8,204)	8,290
	11,206	(5,453)	(85)	(6,712)	(1,044)
Profit before income tax	61,669	40,475	31,161	38,901	172,206
Income tax	(20,508)	(13,078)	(10,708)	(15,235)	(59,529)
Net Profit	41,161	27,397	20,453	23,666	112,677
Attributable to:					
Owners of the parent company	37,263	24,328	18,226	22,947	102,764
Subsidiaries minority interest	3,898	3,069	2,227	719	9,913
	41,161	27,397	20,453	23,666	112,677
From cash flow					
Cash flow from operating activities	83,989	75,903	62,515	73,357	295,764
Other key metrics for Landsvirkjun parent company					
Installed capacity at year end (MW)	2,146	2,145	2,000	1,957	1,957
Av. price for industrial users excl transm. USD/MWh*	23.2	23.3	21.4	18.6	19.2
Average price for primary energy excl. transm. ISK/kWh** ..	5.0	4.8	4.6	4.7	4.7
Sales in GWh	14,028	14,753	14,325	13,625	13,900
Research and development	11,823	14,824	20,004	16,829	19,529
Accident frequency rate: H200***	0.3	0.6	0.0	0.3	0.4

* Transmission is excluded in the calculation of average price and comparative figures changed

** Here is published average price of primary energy and comparative figures changed

*** H200 is the number of absence accidents per each 200,000 working hours

Endorsement by the Board of Directors and CEO

Landsvirkjun's objective is to operate in the energy sector and to engage in other business and financial operations according to the decision of the Board of Directors at each time. The Company's consolidated financial statements include, in addition to the parent company, four subsidiaries, Landsnet hf., Orkufjarskipti hf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf.

The financial statements of Landsvirkjun for the year 2019 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. The functional currency of the Company is US Dollar (USD) and amounts in the financial statements are rounded to the nearest thousand USD.

The Group's operating revenues amounted to USD 509.6 million in the year 2019 compared to USD 533.9 million in the previous year. Thus, revenues decreased by USD 24.3 million. Operating expenses amounted to USD 269.1 million in the year 2019 compared to USD 269.5 million in the year 2018. The Company's operating profit amounted to USD 240.5 million in the year 2019 compared to USD 264.4 million in the previous year.

Landsvirkjun has entered into derivative contracts in order to manage risk. Contracts have been made in order to hedge interest rate risk and foreign exchange risk. In addition, derivative contracts have been made in order to hedge risk due to fluctuations of aluminium prices in the global market as a part of revenues linked to aluminium prices.

Financial expenses in excess of financial income amounted to USD 68.3 million in the year 2019, compared to USD 83.7 million the previous year. The change between years amounts to USD 15.4 million. The change is because of lower interest expenses during the year 2019 but during the year 2018 transaction costs in relation to prepayments of loans was expensed which amounted to USD 10.5 million. The change is also due to currency exchange differences and fair value changes in derivatives which are mostly unrealised and must be kept in mind when evaluating the Company's annual results. Profit before unrealised financial items amounted to USD 173.3 million during the year compared to USD 184.1 million in the year 2018. According to the income statement, profit for the year amounted to USD 112.7 million compared to USD 121.0 million in the previous year.

Equity at year end 2019 amounted to USD 2,235.4 million compared to USD 2,163.1 million at year end 2018 according to the balance sheet. The Company's Board of Directors proposes that the profit for the year will be recognised as an increase in equity. The Company's Board of Directors will during the Annual General Meeting propose a dividend payment to the owners of the Company but otherwise refers to the notes to the financial statements and statement of equity for further changes in equity. Landsvirkjun is a partnership owned by the State and Eignarhlutir ehf. The State owns 99.9% in the Company and Eignarhlutir ehf. 0.1%.

Cash and cash equivalents at year end amounted to USD 110.5 million and undrawn Revolving Credit and Loan Facilities amounted to USD 180.0 million. Cash and cash equivalents and undrawn Revolving Credit and Loan Facilities therefore amounted to USD 290.5 million at year end. Cash flow from operations amounted to USD 295.8 million. There were no new borrowings in the year and repayments amounted to USD 191.5 million. Cash and cash equivalents decreased by USD 5.8 million during the year.

Endorsement by the Board of Directors and CEO, contd.

Corporate Governance

The Board of Directors of Landsvirkjun endeavours to maintain good corporate governance taking into consideration the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce in collaboration with the Confederation of Icelandic Employers and Nasdaq OMX Iceland. The statement of corporate governance is provided in an appendix to the financial statements. Further information on the Parent Company's corporate governance and risk management is included in notes 30 to 41 and appendix to the financial statements. Landsnet hf. has disclosed information on corporate governance in an appendix to its financial statements.

Non-financial information

According to the Financial Statements Act public interest entities shall provide information necessary for an understanding of the entity's development, performance, position and impact of its activity relating to environmental, social and employee matters, policy regarding human rights, how the entity counteracts corruption and bribery matters, and a brief description of the entity's business model etc. Information on the Company's policy and successes in these matters is provided in an appendix to the financial statements. Landsnet hf. has disclosed information on non-financial information in an appendix to its financial statements.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Icelandic Financial Statement Act and it is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of the Groups's assets, liabilities and financial position as at 31 December 2019 and the Group's results and changes in cash in the year 2019.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and the Endorsement by the Board of Directors for the year 2019 give a fair view of the Group's results, financial position and development and describe the main risk factors faced by the Group.

The Board of Directors and the CEO hereby confirm these consolidated financial statements with their signature.

Reykjavik, 28 February 2020.

The Board of Directors:

Jónas Þór Guðmundsson

Álfheiður Ingadóttir

Guðfinna Jóhanna Guðmundsdóttir

Gunnar Tryggvason

Jón Björn Hákonarson

The CEO:

Hörður Arnarson

Independent Auditors' Report

To the Board of Directors and owners of Landsvirkjun

Opinion

We have audited the consolidated financial statements of Landsvirkjun for the year ended December 31, 2019 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flow for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Landsvirkjun as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Landsvirkjun in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
Power sales	
More than 70% of Landsvirkjun power sales comes from sales to power intensive users. The revenue is based on delivered power and contractual prices that are based on certain parameters. Due to both the magnitude and variability of prices, we believe that power sales to power intensive users are a key audit matter.	During our audit of power sales to power intensive users we have confirmed that there is an effective internal control at Landsvirkjun regarding calculation and approval of invoices. We have also confirmed calculation of sales prices by comparing the calculation to contractual agreement and public information in addition to comparing delivered power to metering.
Valuation of power stations	
Included in property, plant and equipment are power stations which amount to 3,198 million USD at year-end. Power stations are measured at cost less accumulated depreciation and impairment.	We reviewed the impairment test of power stations prepared by management. During our audit we examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included:
We consider the valuation of power stations to be a key audit matter due to their magnitude and management estimation of their expected useful life.	• Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used.
As to the valuation of the assets, we refer to fixed assets in note 9 and accounting policies note 53.	We assessed if the valuation's calculations were in accordance with IFRS and assessed that the disclosures were appropriate.

Independent Auditors' Report, contd.

Valuation of transmission network

The transmission network of Landsnet, a subsidiary of Landsvirkjun, is recognised according to the revaluation method. At year-end its carrying amount was USD 684 million. Transmission network valuation is based on management estimations therefore we consider it to be a key audit matter.

Revaluation is performed on a regular basis and it is measured using a cash flow analysis. The assets were revaluated at year-end 2015 and it is management estimate that there is no basis for revaluation at year-end 2019.

As to the valuation of the assets, we refer to fixed assets in note 9 and accounting policies note 53.

Our audit was focused on management estimations of operating value of transmission lines and substations at year-end 2019. We examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included:

- Reviewing the operating plan which is the basis for the valuation.
- Reviewing the assumptions for the weighted average cost of capital (WACC) used.

We assessed if the valuation's calculations and disclosures were in accordance with IFRS.

We have also examined management assumption related to depreciation methods in accordance with IFRS.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises key figures, quarterly statement, the endorsement by the board of directors and CEO, statement of corporate governance and non-financial reporting.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding the report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act and is not disclosed elsewhere in the financial statements.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Landsvirkjun's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Independent Auditors' Report, contd.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Landsvirkjun's internal control.
- Evaluate the appropriateness of accounting policies used and related disclosures, and the reasonableness of accounting estimates made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists related to events or conditions that may cast significant doubt on ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements. If such disclosures are inadequate we are required to modify our unqualified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Landsvirkjun to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditors' Report, contd.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Reykjavik, 28 February 2020.

Deloitte ehf.

Þorsteinn Pétur Guðjónsson
Auditor

Pétur Hansson
Auditor

Income Statement

	Notes	2019	2018
Operating revenues			
Power sales	4	409,715	443,568
Realised aluminium hedges		10,047 (	4,534)
Transmission	4	80,112	87,387
Other income		9,720	7,500
		<u>509,594</u>	<u>533,921</u>
Operating expenses			
Energy generation costs		144,667	145,486
Transmission costs		67,686	67,929
Cost of general research		16,662	10,313
Other operating expenses		40,071	45,761
		<u>269,086</u>	<u>269,489</u>
Operating profit	3	<u>240,508</u>	<u>264,432</u>
Financial income and (financial expenses)			
Interest income		2,705	2,980
Interest expenses		(70,400) (	84,955)
Foreign exchange difference		8,754	22,811
Fair value changes in embedded derivatives	32	(1,323) (	49,410)
Fair value changes in other derivatives		(8,011)	24,878
	7	<u>(68,275)</u>	<u>(83,696)</u>
Associated companies	14	<u>(27)</u>	<u>(179)</u>
Profit before income tax.....		<u>172,206</u>	<u>180,557</u>
Income tax	8	<u>(59,529)</u>	<u>(59,528)</u>
Net profit for the year		<u><u>112,677</u></u>	<u><u>121,029</u></u>
Attributable to:			
Owners of the Parent Company		102,764	107,932
Minority interest in subsidiaries		9,913	13,097
		<u>112,677</u>	<u>121,029</u>

Notes 1 to 63 are an integral part of these financial statements.

Statement of Comprehensive Income

	2019	2018
Net profit for the year	112,677	121,029
Items that will not be reclassified subsequently to profit or loss		
Pension obligation after income tax, change	(1,345)	(2,293)
Items that may be reclassified subsequently to profit or loss		
Translation difference due to subsidiaries and associated companies	(907)	(2,492)
Total operating items moved to equity	(2,252)	(4,785)
Total Comprehensive Income for the year	110,425	116,244
Total Comprehensive Income attributable to:		
Owners of the Parent Company	100,605	103,419
Minority interest in subsidiaries	9,820	12,825
	110,425	116,244

Notes 1 to 63 are an integral part of these financial statements.

Balance Sheet

Assets	Notes	2019	2018
Non-current assets			
Property, plant and equipment	9	3,945,821	4,013,546
Projects under construction	10	47,443	22,573
Development cost	11	133,610	140,698
Other intangible assets	11	48,234	48,067
Derivative financial instruments	13	6,429	13,342
Associated companies	14	626	11,070
Other non-current assets	15	984	762
Deferred tax asset	8	0	14
Total non-current assets		<u>4,183,147</u>	<u>4,250,072</u>
Current assets			
Inventories	18	5,248	5,530
Accounts receivables and other receivables	19	74,715	68,943
Derivative financial instruments	13	8,036	10,258
Cash and cash equivalents	20	110,487	116,278
Total current assets		<u>198,486</u>	<u>201,009</u>
Total assets		<u><u>4,381,633</u></u>	<u><u>4,451,081</u></u>
Equity and liabilities			
Equity			
Owners' contributions	21	586,512	586,512
Revaluation account	22	158,184	164,053
Restricted reserves	22	47,191	32,838
Translation difference	22	(41,570)	(40,756)
Other equity		1,347,066	1,289,803
Equity of the owners of the Parent Company		<u>2,097,383</u>	<u>2,032,450</u>
Minority interest		138,016	130,606
Total equity		<u>2,235,399</u>	<u>2,163,056</u>
Long term liabilities			
Interest bearing liabilities	23	1,543,288	1,808,579
Pension fund obligation	25	36,863	38,015
Deferred income tax liability	8	160,295	130,733
Lease liability	16	5,675	0
Obligation due to demolition	26	12,212	9,011
Prepaid income		2,701	2,847
Derivative financial instruments	13	4,140	11,538
		<u>1,765,174</u>	<u>2,000,723</u>
Current liabilities			
Accounts payable and other payables	27	77,720	73,102
Interest bearing liabilities	24	258,661	192,302
Income tax payable	8	28,837	18,586
Derivative financial instruments	13	15,842	3,312
		<u>381,060</u>	<u>287,302</u>
Total liabilities		<u>2,146,234</u>	<u>2,288,025</u>
Total equity and liabilities		<u><u>4,381,633</u></u>	<u><u>4,451,081</u></u>

Notes 1 to 63 are an integral part of these financial statements.

Statement of Equity

	Owners' contribution	Revaluation account	Restricted reserves	Translation difference	Other equity	Equity attributable to the owners of the Parent Company	Minority interest	Total equity
Changes in equity year 2018								
Equity at 1 January 2018.....	586,512	169,329	10,390 (	38,536)	1,216,571	1,944,266	118,847	2,063,113
Translation difference.....			(	2,220)	(	2,220)	(272)	(2,492)
Pension obligation, change.....				(	2,293)	(2,293)	(	2,293)
Net profit for the year.....					107,932	107,932	13,097	121,029
Total Comprehensive Income.....		0	0 (	2,220)	105,639	103,419	12,825	116,244
Share of profit of subsidiaries and associated companies.....			22,448	(	22,448)	0	0	0
Revaluation transferred to other equity.....	(	5,276)			5,276	0	0	0
Dividend paid to owners.....				(	15,234)	(15,234)	(1,066)	(16,300)
Equity at 31 December 2018	586,512	164,053	32,838 (	40,756)	1,289,803	2,032,450	130,606	2,163,056
Changes in equity year 2019								
Equity at 1 January 2019.....	586,512	164,053	32,838 (	40,756)	1,289,803	2,032,450	130,606	2,163,056
Translation difference.....			(	814)	(	814)	(93)	(907)
Pension obligation, change.....				(	1,345)	(1,345)	(	1,345)
Net profit for the year.....					102,764	102,764	9,913	112,677
Total Comprehensive Income.....		0	0 (	814)	101,419	100,605	9,820	110,425
Share of profit of subsidiaries and associated companies.....			14,353	(	14,353)	0	0	0
Revaluation transferred to other equity.....	(	5,869)			5,869	0	0	0
Dividend paid to owners.....				(	35,672)	(35,672)	(2,410)	(38,082)
Equity at 31 December 2019	586,512	158,184	47,191 (	41,570)	1,347,066	2,097,383	138,016	2,235,399

Notes 1 to 63 are an integral part of these financial statements.

Statement of Cash Flow

	2019	2018
Operating activities		
Operating profit	240,508	264,432
Adjustments for:		
Depreciation and impairment loss	134,779	125,448
Pension obligation, change	(1,821)	(1,972)
Obligation due to demolition, change	3,201	460
Other changes	(105)	(56)
Working capital from operation before financial items	376,562	388,312
Operating assets, change	2,091	(2,581)
Operating liabilities, change	875	292
Cash flow from operating activities before financial items	379,528	386,023
Interest income received	2,762	3,062
Interest expenses and foreign exchange difference paid	(68,397)	(75,868)
Taxes paid	(18,129)	(17,456)
Cash flow from operating activities	295,764	295,761
Investing activities		
Power stations in operation	(33,273)	(37,299)
Power stations under construction	0	(68,474)
Transmission	(39,833)	(26,330)
Power plant preparation cost	(1,869)	(5,245)
Purchased shares in other companies	(390)	(622)
Other capital expenditures	(7,270)	(12,914)
Assets sold	368	107
Other receivables, change	(153)	(87)
Investing activities	(82,420)	(150,864)
Financing activities		
Dividend paid to owners	(26,625)	(14,246)
New loans	0	267,213
Amortisation of long-term debt	(191,467)	(405,102)
Currency swaps	(169)	259
Financing activities	(218,261)	(151,876)
Change in cash and cash equivalents	(4,917)	(6,979)
Effect of exchange difference on cash and cash equivalents	(874)	(3,287)
Cash and cash equivalents at the beginning of the year	116,278	126,544
Cash and cash equivalents at the end of the year	110,487	116,278
Investing- and financing activities without payments:		
Shares sold	10,488	0
Dividend paid	(10,488)	0

Notes 1 to 63 are an integral part of these financial statements.

Notes

General Information

1. Landsvirkjun

Landsvirkjun is a partnership having its place of business in Iceland and its headquarters at Háaleitisbraut 68, Reykjavík. Landsvirkjun operates on the basis of the Act on Landsvirkjun No. 42/1983. The Company's objective is to engage in operations in the energy sector. The financial statements include the consolidated financial statements of the Company and its subsidiaries (referred to as "the Group") and share of profit or loss of associated companies.

2. Basis of preparation

a. Statement of IFRS compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in Icelandic Financial Statements Act.

The Company's Board of Directors approved the financial statements on 28 February 2020.

Note 44 includes information on the Group's significant accounting policies and changes therein in the year.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which have been measured at fair value; derivative financial instruments, trading financial assets and shares in other companies. Operating assets and assets held for sale are recognised at the lower of book value or fair value. Operating assets of the subsidiaries Landsnet hf. and Orkufjarskipti hf. are recognised at revalued cost. Transmission network of the subsidiary Landsnet hf. was revalued during the year 2015, see note 9.

c. Presentation and functional currency

The financial statements are presented in USD, which is the Parent Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise stated.

d. Management's use of estimate and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and the effect of the changes are entered in the periods that the changes are made and in subsequent periods if the change also affects those periods.

Information on management's estimates and decisions made in relation to the application of accounting methods that significantly affect the financial statements are presented in the following notes:

- notes 9 and 53 property, plant and equipment
- notes 11 and 54 development cost and other intangible assets
- notes 13, 30, 32, 33, 34 derivative financial instruments
- notes 8 and 52 income tax
- note 25 pension fund obligations

Notes, contd.

2. Basis of preparation, contd.:

e. Determination of fair value

The Group's accounting policies and disclosures can require measurement of fair values, for both financial and non-financial assets and liabilities.

To the extent possible the Group uses market information in determining fair values but if such information is not available management's evaluation is used.

For derivatives, other than embedded derivatives, counterparty information is used where applicable to measure fair values. Then treasury division compares this to its own assessment and confirms that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Fair values are categorised into different levels in the fair value hierarchy based on assumptions used in the valuation techniques as follows.

- Level 1; quoted prices in active markets for identical assets or liabilities.
- Level 2; assumptions based on other than quoted prices included in Level 1 that can be acquired for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3; assumptions for value of asset or liability that are not based on available market data.

If the assumptions used to measure fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in the lowest level.

If the categorisation of fair value during the accounting period changes, it is transferred between levels at the end of the period.

Further information on the assumptions made in measuring fair values is included in the following notes:

- note 13 derivative financial instruments
- note 32 embedded derivatives
- note 39 long-term debt
- note 53 property, plant and equipment

3. Segment reporting

Segment information is presented according to the nature of the operation and is based on the Group's organisation and internal disclosure.

Landsvirkjun Group's operating segments are specified as follows:

Electricity generation

The operations of the Parent Company fall under the segment electricity generation but Landsvirkjun's objective according to law is to operate in the energy sector and operate other business and financial operations according to decision of the Board of Directors at each time. Landsvirkjun harnesses hydroelectric power, geothermal power and wind power. Landsvirkjun sells all its electricity generation in Iceland, on the one hand to retail sales companies, and on the other to energy intensive industrial users. Furthermore, the operation of Icelandic Power Insurance Ltd. falls under this segment. The purpose of Icelandic Power Insurance Ltd. is to take care of insurances for Landsvirkjun's power stations.

Electricity transmission

The operations of Landsnet hf. fall under the segment electricity transmission. The purpose of Landsnet hf. is to operate the electricity transmission network and system management in Iceland according to provisions of Chapter III of the Energy Act No. 65/2003 and may thus not carry out other operations than are necessary in order to fulfill its obligations according to the Energy Act.

Notes, contd.

3. Segment reporting, contd.:

Other segments

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate a telecommunications system which is necessary for the shareholders' electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. takes care of sales of technical and operational advisory services to third parties and general research work, harnessing researches and projects for Landsvirkjun and related companies.

Almost all the operations of the Group are based in Iceland.

Operating segments year 2019	Electricity generation	Electricity transmission	Other segments	Adjustments	Total
Income from third party	427,314	80,888	1,392		509,594
Income within the Group	15,312	59,443	4,267	(79,022)	0
Segment income	442,626	140,331	5,659	(79,022)	509,594
Segment operating expenses	(145,694)	(63,720)	(3,915)	79,022	(134,307)
EBITDA	296,932	76,611	1,744	0	375,287
Depreciation and impairment loss	(104,708)	(29,641)	(841)	411	(134,779)
Segment earnings, EBIT	192,224	46,970	903	411	240,508
Segment assets 2019	3,864,603	845,797	22,101	(351,494)	4,381,007
Associated companies	270	6,510	356	(6,510)	626
Total assets 2019	3,864,873	852,307	22,457	(358,004)	4,381,633
Segment liabilities 2019	1,751,794	460,995	5,863	(72,418)	2,146,234
Total liabilities 2019	1,751,794	460,995	5,863	(72,418)	2,146,234
Investing activities	37,082	43,711	1,453	0	82,246
Operating segments year 2018					
Income from third party	444,377	88,193	1,351	0	533,921
Income within the Group	15,029	65,946	5,021	(85,996)	0
Segment income	459,406	154,139	6,372	(85,996)	533,921
Segment operating expenses	(161,390)	(63,903)	(4,744)	85,996	(144,041)
EBITDA	298,016	90,236	1,628	0	389,880
Depreciation and impairment loss	(95,094)	(29,643)	(1,120)	409	(125,448)
Segment earnings, EBIT	202,922	60,593	508	409	264,432
Segment assets 2018	3,927,241	839,517	21,130	(347,878)	4,440,010
Associated companies	10,909	6,815	161	(6,815)	11,070
Total assets 2018	3,938,150	846,332	21,291	(354,693)	4,451,081
Segment liabilities 2018	1,889,722	476,027	4,056	(81,780)	2,288,025
Total liabilities 2018	1,889,722	476,027	4,056	(81,780)	2,288,025
Investing activities	114,375	34,279	1,609	0	150,263

Notes, contd.

4. Operating revenues	2019	2018
Power sales are specified as follows:		
Retail sales companies	77,152	90,760
Power intensive users	332,563	352,808
Power sales total	409,715	443,568
Revenues from transmission are specified as follows:		
Transmission	69,488	75,554
Transmission losses, grid service and other transmission revenues	10,624	11,833
Transmission total	80,112	87,387

In notes no. 44 and 47 is further accounted for the registration of revenues of the Group.

5. Total number of employees		
Total number of employees of the Group is specified as follows:		
Average number of employees during the year, full-time equivalents	482	470
Full-time equivalent units at year-end	437	429
Total number of employees of the parent company is specified as follows:		
Average number of employees during the year, full-time equivalents	330	330
Full-time equivalent units at year-end	288	295

6. Total salaries of employees		
Total salaries of employees are specified as follows:		
Salaries	52,145	56,522
Contribution to defined contribution plans	7,660	8,226
Defined pension benefit payments	2,616	2,930
Other change in pension obligations	(1,821) (1,972)	
Other salary related expenses	4,978	5,454
	65,578	71,160
Transferred to assets	(6,535) (8,823)	
	59,043	62,337

Salaries and salary related expenses are allocated as follows:

Energy generation costs	22,997	24,291
Transmission costs	13,394	13,272
Other operating expenses	29,187	33,597
Transferred to assets	(6,535) (8,823)	
	59,043	62,337

Salaries of the Boards of Directors, CEO, Deputy CEO and Executive Directors are specified as follows:

Salaries of the Board of Directors of the parent company	176	195
Salaries of the Boards of Directors of two subsidiaries (same as in 2018)	157	174
Salaries and benefits of the CEO of the parent company	338	379
Salaries of five Directors and the Deputy CEO (same as in year-end 2018)	1,414	1,578
Salaries and benefits of the CEO and 7 Man. Dir. of subsid. (same as in year-end 2018)	1,641	1,700

Notes, contd.

7. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2019	2018
Interest income	2,705	2,980
Interest expenses	(68,649)	(84,536)
Guarantee fee	(2,883)	(5,413)
Indexation	(1,077)	(1,408)
Capitalised interest costs	2,209	6,402
Total interest expenses	(70,400)	(84,955)
Realised foreign exchange difference	464	1,797
Unrealised foreign exchange difference	8,290	21,014
Total foreign exchange difference	8,754	22,811
Fair value changes in embedded derivatives	(1,323)	(49,410)
Fair value changes in other derivatives	(8,011)	24,878
Total financial income and (expenses)	(68,275)	(83,696)

Capitalised finance cost amounted to 4.6% (2018: 5.1%) of invested cash in transmission under construction but no such cost was capitalised in 2019 due to power stations under construction (2018: 3,8%).

8. Income tax

Income tax is specified as follows:

	2019	2018
Change in income tax asset / liability	(29,577)	(39,465)
Income tax payable	(28,837)	(18,586)
Income tax recognised among comprehensive income	(810)	(1,382)
Foreign exchange and translation difference	(51)	(150)
Other changes	(255)	54
Income tax expensed	(59,529)	(59,528)

Notes, contd.

8. Income tax, contd.:

	2019		2018	
Effective tax rate				
Profit for the year		112,677		121,029
Income tax for the year		59,529		59,528
Profit before income tax		<u>172,206</u>		<u>180,557</u>
Income tax acc. to the parent company's tax rate	37.6%	64,749	37.6%	67,889
Effect of different tax rates within the Group	(3.7%) (	6,397)	(4.6%) (	8,252)
Non-taxable and non-deductible items	0.7%	1,177	(0.1%) (	110)
Effective income tax	<u>34.6%</u>	<u>59,529</u>	<u>33.0%</u>	<u>59,528</u>

Income tax due to items recognised in other comprehensive income is specified as follows:

	2019		2018	
Income tax due to pension obligation recognised in other comprehensive income ...	(	810)	(	1,382)
	(	810)	(	1,382)

Changes in the tax asset / liability during the year is specified as follows:

	Deferred tax asset		Deferred tax liability	
	2019	2018	2019	2018
Balance at the beginning of the year	14	14	(130,733)	(91,268)
Change in temporary difference	(13)	(24)	(29,577)	(39,468)
Change in carry forward loss	0	26	(37)	(149)
Foreign exchange and translation difference	(1)	(2)	52	152
Balance at year end	<u>0</u>	<u>14</u>	<u>(160,295)</u>	<u>(130,733)</u>

The Group's deferred tax asset / liability is specified as follows:

Carry forward loss	35	36	143	187
Property, plant and equipment and intangible assets ...	0	0	(172,599)	(144,035)
Derivative financial instruments	0	0	(1,255)	(4,765)
Other items	(35)	(22)	13,416	17,881
Balance at year end	<u>0</u>	<u>14</u>	<u>(160,295)</u>	<u>(130,733)</u>

The Group's carry forward tax losses may be utilised for 10 years from when it is incurred and are specified as follows:

Carry forward loss of the year 2015, usable until the year 2025	210	411
Carry forward loss of the year 2016, usable until the year 2026	424	441
Carry forward loss of the year 2017, usable until the year 2027	140	146
Carry forward loss of the year 2018, usable until the year 2028	<u>114</u>	<u>119</u>
Carry forward loss at year end	<u>888</u>	<u>1,117</u>

Deferred tax asset is recognised as asset as management considers it likely that it will be utilised against future taxable profit. Carry forward loss is recognised in Icelandic krona and, therefore, the exchange rate of the USD affects the carry forward loss at each year end.

Notes, contd.

9. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Power stations	Trans- mission	Communi- cation equipment	Other assets	Total
Cost value					
Total value at 1.1.2018	5,294,072	982,011	28,131	73,179	6,377,393
Effect of exchange rate changes	0	0	(2,997)	0	(2,997)
Additions during the year	37,990	6,113	1,702	7,091	52,896
Transferred from projects under construction	264,867	11,644	0	0	276,511
Sold and disposed of	0	0	0	(528)	(528)
Total value at 31.12.2018	5,596,929	999,768	26,836	79,742	6,703,275
Effect of exchange rate changes	0	0	(1,035)	0	(1,035)
Additions during the year	27,674	5,317	1,831	8,602	43,424
Transferred from projects under construction	0	17,236	0	0	17,236
Sold and disposed of	0	(7)	(59)	(3,040)	(3,106)
Total value at 31.12.2019	5,624,603	1,022,314	27,573	85,304	6,759,794
Depreciation and impairment loss					
Total value at 1.1.2018	2,238,341	284,478	10,705	33,612	2,567,136
Effect of exchange rate changes	0	0	(1,173)	0	(1,173)
Depreciation for the year	92,756	27,061	1,138	3,290	124,245
Sold and disposed of	0	0	0	(478)	(478)
Total value at 31.12.2018	2,331,097	311,539	10,670	36,424	2,689,730
Effect of exchange rate changes	0	0	(409)	0	(409)
Depreciation for the year	95,821	27,034	857	3,393	127,105
Sold and disposed of	0	(7)	(45)	(2,403)	(2,455)
Total value at 31.12.2019	2,426,918	338,566	11,073	37,414	2,813,971
Book value					
1.1.2018	3,055,731	697,533	17,426	39,567	3,810,257
31.12.2018	3,265,832	688,229	16,166	43,318	4,013,546
31.12.2019	3,197,685	683,748	16,499	47,889	3,945,821
Book value without revaluation					
1.1.2018	3,055,731	446,573	16,844	39,567	3,558,715
31.12.2018	3,265,832	447,335	15,722	43,318	3,772,208
31.12.2019	3,197,685	454,100	16,147	47,889	3,715,822

Official assessment of fixed assets and insurance value

The official assessment of the Company's real estates amounted to USD 499 million at year end 2019 (2018: USD 499 million). Insurance value of the Company's assets amounts to USD 5,910 million (2018: USD 5,470 million) and catastrophe insurance value amounts to USD 1.008 million (2018: USD 1.048 million).

Notes, contd.

9. Property, plant and equipment, contd.:

Assumptions relating to revaluation of property, plant and equipment

In accordance with provision of IFRS the Group's transmission network and communication equipment were revalued during the year 2008 and powerlines and connection masts of Landsnet hf. at year end 2015. Two methods were applied when performing the revaluation. On one hand it is done by looking at the assets' replacement cost which was calculated by independent experts at the beginning of the year 2015 and projected to the end of the year 2015. On the other hand the value of the assets in operation is calculated by cash flow analysis. The forecast period was from the year 2016 until 2025 and after that terminal value of the operations was calculated. The revaluation was based on operational value of the assets and assumed the investments would be equal to depreciations of assets. Discounting of future cash flows was based on weighted average cost of capital (WACC) which Landsnet hf. is allocated for energy intensive industrial users and distribution companies. The revaluation is classified at level 3 in the fair value hierarchy.

10. Projects under construction

Projects under construction are specified as follows:

	2019	2018
Balance at 1.1.	22,573	232,425
Transferred from/to development costs	3,340 (	2,771)
Additions during the year	38,768	69,430
Transferred to property, plant and equipment	(17,238) (	276,511)
Balance at 31.12.	47,443	22,573

11. Development cost and other intangible assets

Development cost and other intangible assets are specified as follows:

	Capitalised development costs	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2018	215,318	45,611	10,459	271,388
Additions during the year	8,131	0	334	8,465
Transferred from projects under construction	2,771	0	0	2,771
Total value at 31.12.2018	226,220	45,611	10,793	282,624
Sold and disposed of	0	0 (	882) (	882)
Additions during the year	3,379	0	713	4,092
Transferred to projects under construction	(3,340)	0	0 (	3,340)
Total value at 31.12.2019	226,259	45,611	10,624	282,494
Depreciation and impairment loss				
Total value at 1.1.2018	85,000	0	7,657	92,657
Amortisation during the year	0	0	680	680
Impairment loss during the year	523	0	0	523
Total value at 31.12.2018	85,523	0	8,337	93,860
Amortisation during the year	0	0	546	546
Impairment loss during the year	7,127	0	0	7,127
Sold and disposed of	0	0 (	882) (	882)
Total value at 31.12.2019	92,650	0	8,001	100,651

Notes, contd.

11. Development cost and other intangible assets, contd.:	Capitalised development costs	Water and geothermal rights	Software	Total
Book value				
1.1.2018	130,319	45,611	2,802	178,732
31.12.2018	140,698	45,611	2,456	188,765
31.12.2019	133,610	45,611	2,623	181,844

Development cost is reviewed every year by management and checked whether there are indications of impairment. In testing for possible impairment the Parent Company's forecast on expected cash flow over the useful life of the assets was used. In the evaluation expected cash flow was discounted with the rate of 5.25% (2018: 5.14%) of weighted average required rate of return. If management concludes that impairment has occurred the relevant development cost is expensed as impairment.

12. Depreciation and impairment loss

The Group's depreciation and impairment is specified as follows:

	2019	2018
Power stations	95,821	92,756
Transmission	27,034	27,061
Telecommunication equipment	857	1,138
Other assets	3,393	3,290
Depreciation of assets in operation	127,105	124,245
Impairment loss on development cost	7,127	523
Amortisation of software	546	680
	134,779	125,448

The Group's depreciation and impairment is allocated as follows by sectors:

Energy generation costs	96,694	93,628
Transmission costs	28,557	28,485
Cost of general research	6,550	0
Other operating expenses	2,978	3,335
	134,779	125,448

13. Derivative financial instruments

Derivative financial instruments in the balance sheet are specified as follows:

	31.12.2019	31.12.2018
Assets:		
Embedded derivatives in power contracts	5,575	6,674
Aluminium hedges	3,656	10,177
Currency swaps	5,234	6,749
	14,465	23,600

Derivative financial instruments are divided as follows:

Long-term component of derivative agreements	6,429	13,342
Short-term component of derivative agreements	8,036	10,258
	14,465	23,600

Liabilities:

Embedded derivatives in power contracts	2,864	2,640
Aluminium hedges	1,290	1,786
Currency swaps	15,828	10,424
	19,982	14,850

Notes, contd.

13. Derivative financial instruments, contd.:

Derivative financial instruments are divided as follows:

	31.12.2019	31.12.2018
Long-term component of derivative agreements	4,140	11,538
Short-term component of derivative agreements	15,842	3,312
	<u>19,982</u>	<u>14,850</u>

The assumptions for valuation of embedded derivatives are discussed in note 32.

The fair value of other derivatives than embedded derivatives is based on Landsvirkjun's evaluation and available evaluation of counterparties, where applicable, and verified by the treasury department with comparative calculations based on market information.

14. Associated companies

Shares in associated companies recognised according to the equity method are specified as follows:

		2019	
	Share	Share in return	Book value
CEDC, Canada	33.0%	0	188
Heimsþing ehf., Reykjavík, Iceland	33.3%	(5)	(3)
SER eignarhaldsfélag ehf., Reykjavík, Iceland	35.4%	(33)	261
Sjávarorka ehf., Reykjavík, Iceland	33.6%	0	12
LP-Verkis, Georgia	40.0%	(2)	5
Hecla SAS, France	28.5%	13	163
		<u>(27)</u>	<u>626</u>
		2018	
	Share	Share in return	Book value
Farice ehf., Kopavogur, Iceland	33.2%	(131)	10,587
Heimsþing ehf., Reykjavík, Iceland	33.3%	0	2
SER eignarhaldsfélag ehf., Reykjavík, Iceland	35.4%	(54)	307
Sjávarorka ehf., Reykjavík, Iceland	33.6%	0	13
LP-Verkis, Georgia	40.0%	(9)	8
Hecla SAS, France	28.5%	15	153
		<u>(179)</u>	<u>11,070</u>

15. Other non-current assets

Other long-term assets in the balance sheet are specified as follows:

	31.12.2019	31.12.2018
Shares in other companies	587	685
Long-term receivables	397	77
	<u>984</u>	<u>762</u>

16. Lease agreements

The Group is a lessee in the lease agreements of real estate and land. IFRS 16 is a new standard about lease agreements and was implemented in the year 2019. Further information about the effect of implementation is in note no. 44.

	2019	
	Lease asset	Lease debt
At its effective date 1.1.2019	6,497	(6,497)
Indexation	145	(145)
Foreign exchange rate changes	(13)	277
Amortisation of lease debt / depreciation of lease asset	(336)	297
Balance at 31.12.2019	<u>6,293</u>	<u>(6,068)</u>

Notes, contd.

16. Lease agreements contd.:

In the year 2019 the Group expensed USD 274 thousand of interest expenses due to the lease liability. The Group makes use of exemptions in IFRS 16 due to lease of assets with low value.

Lease liability - maturity analysis - not discounted

	2019
Payments within a year	583
Payments after a year and within 5 years	1,560
Payments after 5 years or later	11,318
Total of lease liability - not discounted	<u>13,461</u>

17. Landsvirkjun's subsidiaries

Landsvirkjun's subsidiaries are the following:

	Share	
Icelandic Power Insurance Ltd., Bermuda	100.0%	100.0%
Landsnet hf., Reykjavik, Iceland	64.7%	64.7%
Landsvirkjun Power ehf., Reykjavik, Iceland	100.0%	100.0%
Orkufjarskipti hf., Reykjavik, Iceland	100.0%	100.0%

18. Inventories

Inventories are specified as follows:

Spare parts and consumables	5,248	5,530
	<u>5,248</u>	<u>5,530</u>

19. Accounts receivables and other receivables

31.12.2019 31.12.2018

Accounts receivables and other receivables are specified as follows:

Accounts receivables	64,856	64,934
Other short term receivables	9,859	4,009
	<u>74,715</u>	<u>68,943</u>

In assessing impairment of accounts receivables, historical information is used as guidance as well as current economic prospects. At year-end 2019, 90% of accounts receivables were under 30 days old (2018: 94%).

20. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank deposits	81,199	64,910
Market securities	29,288	51,368
	<u>110,487</u>	<u>116,278</u>

21. Equity

The Parent Company is a partnership owned by the Icelandic State and Eignarhlutir ehf. The Icelandic State owns 99.9% in the Company and Eignarhlutir ehf. 0.1%. Eignarhlutir ehf. is owned by the State. Landsvirkjun is an independent taxable entity. The Group's equity ratio at year end 2019 was 51.0% compared to 48.6% at year end 2018.

22. Revaluation account, translation difference and restricted reserves

The revaluation account consists of a revaluation of the transmission network and telecommunication equipment after income tax effects. The translation difference is the foreign exchange difference arising due to Landsvirkjun's subsidiaries and associated companies with other functional currencies than the Parent Company's. Restricted reserves contain the share in profit of equity accounted investees, from 1 January 2016, (subsidiaries and associated companies) recognised in the income statement which exceeds dividends from these companies, or the dividend that has been decided to distribute.

Notes, contd.

23. Liabilities

Interest bearing long term debt is specified as follows:

	2019	2018
Interest bearing long term debt 1.1.	2,000,881	2,169,186
New loans	0	267,213
Amortisation of long-term debt	(191,157)	(405,102)
Foreign exchange difference	(17,062)	(44,559)
Changes in CPI indexation and amortisation of discount	9,287	14,143
Interest bearing long term debt 31.12.	1,801,949	2,000,881

Interest bearing long-term debt is specified as follows by currencies:

		2019		2018	
	Due date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2020-2034	3.7%	268,797	3.7%	273,367
Liabilities in CHF	2020-2022	0.0%	15,141	0.0%	20,849
Liabilities in EUR	2024-2026	0.0%	257,879	0.0%	309,111
Liabilities in USD	2020-2035	3.8%	1,260,132	3.8%	1,397,554
			1,801,949		2,000,881
Current maturities of long-term debt			(258,661)		(192,302)
Total long-term debt			1,543,288		1,808,579

Interest rates on debt at year end was in the range of 0.0-5.0%. Nominal interest rates for the period were on average 3.6% (2018: 3.7%), taking into account the state guarantee fee for long-term loans which is calculated according to Act No. 121/1997 on state guarantees.

24. Maturities of long-term debt

According to loan agreements, maturities of long-term debt are as follows:

	2019	2018
2019	-	192,302
2020	258,661	260,771
2021	214,511	215,459
2022	163,481	163,293
2023	165,652	165,740
2024	143,529	-
Later	856,115	1,003,316
	1,801,949	2,000,881

25. Pension fund obligations

The Company's obligation to refund the indexation charges on retirement payments to current and former employees, which hold pension rights with state and communal pension funds amounted to USD 36.9 million at year end 2019 according to an actuary's evaluation, which is based on estimated future changes in salaries and prices. Interest rates in excess of price increase are assessed at 3.5% and salary increase in excess of price increase is assessed at 1.5% per year on average. Premises on life expectancy and mortality are in accordance with the provisions of Regulation No. 391/1998 on obligatory pension benefits and operation of pension funds. The calculated retirement age is 68 years for current employees and 65 years for non-employees with vested benefits. This is consistent with criterion used by the Pension Fund for State Employees.

Notes, contd.

25. Pension fund obligations contd.:

Change in the obligation is specified as follows:	2019	2018
Balance at 1.1.	38,015	40,597
Expensed during the year	776	925
Payments during the year	(2,597) (	(2,896)
Actuarial change	2,155	3,674
Effect of foreign exchange rate changes	(1,486) (	(4,285)
Balance at 31.12.	36,863	38,015
Pension fund obligation, 5 year statement:	2019	2018
Present value of the obligation	36,863	38,015
	2017	2016
	40,597	35,383
	2015	2014
	27,663	24,111

26. Obligation due to demolition

Change in the obligation due to demolition is specified as follows:	2019	2018
Balance at 1.1.	9,011	8,551
Reversal of discount in the year	3,201	460
Balance at 31.12.	12,212	9,011

In accordance with IFRS, the initial value of fixed operating assets shall include estimated cost of their demolition after their use. Estimated demolition cost of power lines has been assessed and discounted on the basis of the useful life. In return, an obligation has been written up among long-term liabilities. A change in the obligation is recognised in the income statement amounting to the discounted value.

27. Accounts payable and other payables

Accounts payable and other payables are specified as follows:	31.12.2019	31.12.2018
Accounts payable	26,695	25,479
Accrued interests	19,688	20,797
Other short term liabilities	31,337	26,826
	77,720	73,102

28. Related parties

Definition of related parties

Owners, associated companies, members of Boards of Directors, key management and companies and institutions owned by them are among the Company's related parties.

Transactions with related parties	2019	2018
<i>Other income</i>		
Associated companies	2	17
<i>Interest income</i>		
Associated companies	3	2
<i>Expenses</i>		
Associated companies	0	0
<i>Receivables</i>		
Associated companies	0	10

Transactions with related parties are on the same basis as transactions with non-related parties. Transactions with the State or companies or institutions owned by the State are not specified as a separate item but such transactions are comparable to transactions with non related parties. The Group applies an exemption from disclosure requirements of IAS 24 as the Parent Company is owned by the State. See further information in note 21.

Notes, contd.

29. Fees to auditors

Fees to auditors of the Group in the year 2019 amounted to USD 475 thousand (2018: USD 376 thousand), whereof USD 237 thousand (2018: USD 239 thousand) was for the audit of financial statements.

30. Risk management

Effective risk management is a key aspect of informed decision making and is integrated into processes of all of the Company's divisions. Landsvirkjun's risk management policies support continuous and dependable operations, as well as the Company's goals for social responsibility.

Landsvirkjun's risk management goals:

- Support development and adoption of policies
- Support effective, stable and responsible operations
- Support focused execution of projects and assignments
- Ensure risks are in line with approved risk management policies

Landsvirkjun's Board of Directors approves risk management policies.

- The Board's Risk Committee, nominated by the Board, verifies the effectiveness of risk management within the Company and supports the Board in monitoring key risks and risk management procedures.

- The Company's Risk Management Committee reassesses and approves risk management procedures within the Company. The committee is a consultation forum for risk management and also ensures that the Company's Risk Policy is adhered to. The CEO, Deputy CEO and the Executive Vice President of the Finance Division are members of the committee. The CEO serves as its Chairman.

- Executive Directors are responsible for identifying and assessing risks within their divisions, as well as implementing appropriate risk mitigation controls.

- The Director of Risk Management coordinates risk management and is responsible for its realistic implementation.

31. Financial risk

Landsvirkjun is exposed to financial risk through business transactions and other operations of the Company. The treasury function is responsible for analysing, managing and reporting the Company's financial risk. The Company's financial risk is divided into market risk, liquidity risk and counterparty risk. Market risk mainly consist of the following:

- Price in power contracts being linked to aluminium price and Nord Pool
- Interest rate risk due to the companies liabilities
- Foreign exchange risk due to liabilities and cash flows

Landsvirkjun utilizes derivative agreements to hedge market risk in accordance with approved market risk limits.

32. Aluminium- and Nord Pool risk

The Company is exposed to market risk due to fluctuations in aluminum price and Nord Pool electricity prices. About 33% of Landsvirkjun's electricity sales (GWh) is linked to aluminium price and around 10% is linked to Nord Pool. Thus the Company enters into derivative agreements to secure its income base and reduce fluctuations. Such agreements consist in most cases of fixing prices at a certain level. Therefore, the Company will recognise less revenue if prices go up, but secure its revenue if prices go down. Landsvirkjun has hedged around 50% of its aluminium price risk in 2020, and around 25% for 2021. No derivative agreements have been entered into to hedge Nord Pool electricity price risk. At 2019 year-end the fair value of derivatives for hedging aluminium price risk was positive by 2.4 million USD (2018: positive by 8.4 million USD).

Notes, contd.

32. Aluminium- and Nord Pool risk contd.:

Embedded derivatives

Landsvirkjun's contracts for sale and purchase of electricity which are linked to aluminium price form embedded derivatives which are recognised in the Company's financial statements. Embedded derivatives in power contracts are recognised in the balance sheet at fair value on the reporting date. Fair value changes are recognised in the income statement among financial income and expenses.

	2019	2018
Fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	4,034	53,444
Fair value changes during the year	(1,323)	(49,410)
Fair value of embedded derivatives at year end	2,711	4,034
Division of embedded derivatives is specified as follows:		
Long term component of embedded derivatives	5,366	5,228
Short term component of embedded derivatives	(2,655)	(1,194)
Total embedded derivatives	2,711	4,034

The main assumptions Landsvirkjun uses in the valuation of embedded derivatives are as follows:

Calculations are based on the forward price of aluminium, as disclosed in the LME and are based on the maximum time length of forward aluminium prices, or 123 months. Management's opinion is that aluminium price expectations after ten years will reflect the aluminium price at the time the agreements were made and therefore fair value changes will not arise for that period.

The calculations are limited to the revision time of power contracts or length of contracts. However the time length can never be more than the aforementioned 123 months.

According to provisions on energy buyers' purchase obligation the calculation is based on a secured minimum purchase.

Expected cash flow of contracts is discounted using USD rates according to Bloomberg, no spread added. At year end 2019, rates for discounting were in the range of 1.8 - 1.9% (2018: 2.6 - 2.8%).

Sensitivity analysis of aluminium price risk

The following tables show effects of changes in aluminium prices on fair value of financial instruments linked to aluminium prices in the income statement. Amounts are in thousands of USD, pre tax.

31.12.2019	Aluminum price USD/MT	
	-100	+100
Embedded derivatives	(8,490)	8,496
Aluminium hedges	3,196	(3,020)
	(5,294)	5,476
31.12.2018	Aluminum price USD/MT	
	-100	+100
Embedded derivatives	(8,832)	8,742
Aluminium hedges	5,066	(4,860)
	(3,766)	3,882

Notes, contd.

33. Foreign exchange risk

Foreign exchange risk is the risk of loss due to unfavourable changes in foreign exchange rates. Landsvirkjun's functional currency is the USD and therefore a foreign exchange risk arises from cash flows, assets and liabilities in currencies other than the USD. The Company's revenues are mainly in USD and ISK, but expenses in ISK provide a natural hedge. Currency risk due to amortisation and interest payments has been limited with the use of cross currency swaps.

The Company's reporting risk related to changes in exchange rate arises mainly due to its debt in EUR which is mainly long-term. The following table shows Landsvirkjun's position in currencies other than the functional currency.

Landsvirkjun's foreign exchange risk relating to monetary assets and liabilities at year end is specified as follows:

	EUR	ISK	CHF	Other currencies
31.12.2019				
Long term receivables.....	0	3,415	0	85
Accounts receivables and other receivables.....	2,409	15,648	0	21
Cash and cash equivalents.....	3,104	25,922	0	2,542
Interest bearing liabilities.....	(257,879)	(268,797)	(15,141)	0
Derivatives.....	56,082	234,907	0	0
Accounts payable and other payables	(2,373)	(72,823)	(9)	(418)
Risk in balance sheet.....	(198,657)	(61,728)	(15,150)	2,230
31.12.2018				
Long term receivables.....	0	1,895	0	0
Accounts receivables and other receivables.....	1,378	22,615	0	1,930
Cash and cash equivalents.....	2,051	25,241	79	3,136
Interest bearing liabilities.....	(309,111)	(273,367)	(20,849)	0
Derivatives.....	103,075	238,178	0	0
Accounts payable and other payables	(1,032)	(68,977)	0	(399)
Risk in balance sheet.....	(203,639)	(54,415)	(20,770)	4,667

Exchange rates of the main currencies against the USD for the years 2019 and 2018 are specified as follows:

	Average rate		Rate at year end	
	2019	2018	2019	2018
EUR.....	0.89	0.85	0.89	0.87
CHF.....	0.99	0.98	0.97	0.98
NOK.....	8.81	8.14	8.79	8.68
ISK.....	122.65	108.38	121.10	116.33

Notes, contd.

33. Foreign exchange risk contd.:

Sensitivity analysis

The change of the functional currencies of the companies in the Group by 10% against the following currencies, would have changed the Group's results and equity by the following amounts before tax. The analysis includes monetary assets and liabilities and assumes that all other variables, especially interest rates, remain unchanged.

	Profit (loss) / Equity	
	Strengthening	Weakening
2019		
EUR	19,866 (	19,866)
ISK	6,173 (	6,173)
CHF	1,515 (	1,515)
Other currencies	(223)	223
2018		
EUR	20,364 (	20,364)
ISK	5,442 (	5,442)
CHF	2,077 (	2,077)
Other currencies	(499)	499

The fair value of cross currency swaps was negative by USD 10.6 million at the end of December 2019 (2018: negative by USD 3.7 million).

34. Interest rate risk

Landvirkjun is exposed to interest rate risk through its fixed and floating interest bearing assets and liabilities. The Company's risk mainly relates to possible increase in interest on floating interest bearing borrowings, which would lead to an increase in interest expense. In recent years, Landvirkjun has managed interest rate risk by increasing the ratio of fixed interest bearing borrowings, as well as using cross currency swaps that include interest rate swaps.

At year end 2019, the proportion of loans with fixed interest rates including swap agreements was 73% (2018: 73%). At year end 2019, the estimated market value of the Company's long-term liabilities was USD 168 million higher than their book value (2018: USD 145 million higher) discounted by the underlying currencies yield curve without spread. The following table shows the division of financial assets and liabilities between floating and fixed interest.

	31.12.2019	31.12.2018
<i>Financial instruments with fixed interest</i>		
Interest bearing liabilities	(1,030,392)	(1,130,884)
Cross currency and interest rate swaps	(292,448)	(337,367)
Long term receivables	397	77
	(1,322,443)	(1,468,174)
<i>Financial instruments with floating interest</i>		
Cash and cash equivalents	110,487	116,278
Interest bearing liabilities	(771,557)	(869,997)
Cross currency and interest rate swaps	284,764	334,941
	(376,306)	(418,778)

Notes, contd.

34. Interest rate risk, contd.,

Sensitivity analysis of interest risk

The following tables show the effect of changes in interest rates on book value and cash flows for one year. The amounts are in USD thousand before tax.

31.12.2019	Cash flow		Book value	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	470 (	436)
Other derivatives	(2,287)	2,709	(227)	1,805
Interest bearing liabilities	5,005 (	6,963)	0	0
Cash and cash equivalents	(1,105)	1,105	0	0
	1,613 (	3,149)	243	1,369

31.12.2018	Cash flow		Book value	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	475 (	439)
Other derivatives	(2,319)	3,176	(657)	2,392
Interest bearing liabilities	5,435 (	8,044)	0	0
Cash and cash equivalents	(1,163)	1,163	0	0
	1,953 (	3,705)	(182)	1,953

35. Liquidity risk

Liquidity risk consists of risk of losses should the Company not be able to meet its obligations at maturity date. Landsvirkjun limits liquidity risk with effective liquidity management by ensuring that there is sufficient cash at all times to be able to meet obligations. In order to keep balance between liabilities and expected revenues an emphasis is placed on a secure liquidity position in the form of cash and access to revolving credit facilities.

The Company's cash and cash equivalents amounted to USD 110 million at year end 2019 (2018: USD 116 million) but taking into account undrawn credit facilities (USD 180 million) Landsvirkjun has access to a total of USD 290 million (2018: USD 469 million). Cash flow from operations, a well distributed maturity profile in addition to strong liquidity and access to credit facilities secure the Company's liquidity at least throughout the year 2021.

Notes, contd.

35. Liquidity risk, contd.,

Contractual payments due to financial instruments, including interests, are specified as follows:

31.12.2019	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Non-derivative financial instruments</i>						
Long term receivables	397	411	0	411	0	0
Cash and cash equiv.	110,487	110,487	110,487	0	0	0
Short term receivables	74,715	74,715	74,715	0	0	0
Interest bearing liabilities ..	(1,801,949)	(2,059,766)	(279,735)	(263,286)	(577,763)	(938,982)
Current liabilities	(106,557)	(106,557)	(106,557)	0	0	0
	(1,722,907)	(1,980,710)	(201,090)	(262,875)	(577,763)	(938,982)

Derivative financial instruments

Cross currency swaps	(10,594)	(15,980)	(9,497)	(1,723)	(4,760)	0
Aluminium derivatives	2,366	1,984	1,984	0	0	0
Embedded derivatives in power contracts	2,711	3,584	(2,682)	(1,770)	540	7,496
	(5,517)	(10,412)	(10,195)	(3,493)	(4,220)	7,496

31.12.2018

Non-derivative financial instruments

Long term receivables	77	86	0	0	86	0
Cash and cash equiv.	116,278	116,278	116,278	0	0	0
Short term receivables	68,943	68,943	68,943	0	0	0
Interest bearing liabilities ..	(2,000,881)	(2,358,526)	(234,138)	(322,096)	(676,137)	(1,126,155)
Current liabilities	(91,688)	(91,688)	(91,688)	0	0	0
	(1,907,271)	(2,264,907)	(140,605)	(322,096)	(676,051)	(1,126,155)

Derivative financial instruments

Cross currency swaps	(3,675)	(13,310)	(2,730)	(6,201)	(4,321)	(58)
Aluminium derivatives	8,391	7,695	7,096	599	0	0
Embedded derivatives in power contracts	4,034	5,373	(1,214)	(1,362)	562	7,387
	8,750	(242)	3,152	(6,964)	(3,759)	7,329

Notes, contd.

36. Financing

Landsvirkjun places emphasis on securing access to capital and having diverse sources of funding. Thus, the Company has been able to access capital through the issuance of bonds in the domestic and foreign capital markets, by borrowing from the European Investment Bank (EIB) and the Nordic Investment Bank (NIB) and through project financing in Europe and Japan. In addition, the Company has access to credit facilities from its relationship banks.

In 2019, Landsvirkjun cancelled an ISK revolving credit facility, which reflects a reduced need for liquidity. A foreign revolving credit facility was renewed and its amount reduced from USD 200 million to USD 150 million. The amount of Landsnet's revolving credit facility was reduced from USD 50 million to USD 30 million. There were no new borrowings in the year 2019 (2018: USD 267 million). Repayments of borrowings amounted to USD 191 million (2018: USD 405 million).

Landsvirkjun's interest-bearing debt amounted to USD 1.802 million at year-end 2019 (2018: USD 2.001 million). The risk associated with refinancing is reduced by the equal distribution of amortisations and by the suitable lifetime of outstanding debt. The weighted average lifetime of interest-bearing debt is 4.6 years (2018: 5.1 years) and the ratio of interest-bearing debt with maturity within a 12-month period is 14.4% (2018: 9.6%).

In recent years, Landsvirkjun has placed an emphasis on changing its debt portfolio and no longer takes on debt with a state guarantee. In addition, the Company has systematically worked towards removing state guarantees of outstanding debt where possible. The principal of state guarantee debt is decreasing and the last debt enjoying a state guarantee is due in 2026. At year-end 2019, 39% of Landsvirkjun's debt was state guaranteed (2018:40%). Landsvirkjun pays a guarantee fee to the Icelandic state for the Company's debt which has a state guarantee.

37. Green Bonds

In connection with the United Nations' Sustainable Development Goals, Landsvirkjun issued a USPP in Green Bond format of USD 200 million in March 2018. This was the company's first Green Bond and Landsvirkjun was the first Icelandic company to issue a Green Bond. The bond was issued under Landsvirkjun's Green Bond Framework and the proceeds of the transaction have been fully allocated to the build up of Theistareykir Power Station and the expansion of Burfell Power Station. Both projects are in compliance with the Green Bond Framework's eligibility criteria and restrictions on CO2 emission.

Annual reporting under the Green Bond Framework and further information can be found on Landsvirkjun's website.

38. Counterparty risk

Counterparty risk is the risk that a counterparty to an agreement does not comply with provisions of the agreement. Landsvirkjun's counterparty risk arises first and foremost due to the Company's power contracts, derivative contracts and cash and cash equivalents. Though the amounts involved can be considerable, the risk is limited by the Company's requirements for take or pay clauses in power contracts and also through requirements for counterparty guarantees. Landsvirkjun requires that counterparties have an investment grade credit rating when it comes to keeping cash and cash equivalents and entering into derivative contracts. In note no. 51 the assessment of assets is explained in more detail.

Notes, contd.

38. Counterparty risk contd.:

The Company's counterparty risk is specified as follows at year end:

	31.12.2019	31.12.2018
Derivative financial instruments	14,465	23,600
Long term receivables	397	77
Accounts receivables and other receivables	74,715	68,943
Cash and cash equivalents	110,487	116,278
	<u>200,064</u>	<u>208,898</u>

39. Comparison of fair value and book value of long-term debt

	31.12.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	1,801,949	1,970,328	2,000,881	2,146,307

The fair value of other financial assets and liabilities is measured as book value.

Fair value of interest bearing liabilities is calculated by discounting expected cash flows with the underlying currencies' yield curve.

Interest rates are specified as follows:	2019	2018
Interest bearing liabilities in ISK	0.8 to 1.2%	1.1 to 1.4%
Interest bearing liabilities other than in ISK	-0.7 to 2.0%	-0.8 to 2.8%

40. Fair value classification

The table shows the level categorisation for items in the financial statements recognised at fair value.

	Level 2	Level 3	Total
31.12.2019			
Embedded derivatives		2,711	2,711
Other derivatives	(692)	(7,536)	(8,228)
Revaluation of property, plant and equipment		230,000	230,000
Shares in other companies		587	587
	<u>(692)</u>	<u>225,762</u>	<u>225,070</u>
31.12.2018			
Embedded derivatives		4,034	4,034
Other derivatives	8,982	(4,266)	4,716
Revaluation of property, plant and equipment		241,338	241,338
Shares in other companies		685	685
	<u>8,982</u>	<u>241,791</u>	<u>250,773</u>

Main assumptions for valuation of derivatives can be seen in notes 13 and 32.

Notes, contd.

41. Classification of financial instruments

Financial assets and liabilities are divided into defined groups. The classification affects how evaluation of the relevant financial instrument is measured. Those groups to which the Company's financial assets and liabilities pertain and their basis for evaluation are specified as follows:

- Assets and liabilities held for trading - are recognised at fair value through profit and loss.
- Equity instruments - are recognised at fair value through profit and loss.
- Loans and receivables - are recognised at amortised cost.
- Other financial liabilities - are recognised at amortised cost.

Financial assets and liabilities are divided into the following groups of financial instruments:

	Assets and liabilities held for trading	Equity instruments	Loans and receivables	Other financial liabilities	Total
31.12.2019					
Derivative financial instruments	14,465				14,465
Shares in other companies		587			587
Long term receivables			397		397
Accounts receivables and other receivables			74,715		74,715
Cash and cash equivalents			110,487		110,487
Total assets	14,465	587	185,599	0	200,651
Interest bearing liabilities				1,801,949	1,801,949
Derivative financial instruments	19,982				19,982
Accounts payable and other payables				106,557	106,557
Total liabilities	19,982	0	0	1,908,506	1,928,488
31.12.2018					
Derivative financial instruments	23,600				23,600
Shares in other companies		685			685
Long term receivables			77		77
Accounts receivables and other receivables			68,943		68,943
Cash and cash equivalents			116,278		116,278
Total assets	23,600	685	185,298	0	209,583
Interest bearing liabilities				2,000,881	2,000,881
Derivative financial instruments	14,850				14,850
Accounts payable and other payables				91,688	91,688
Total liabilities	14,850	0	0	2,092,569	2,107,419

42. Capital management

Landsvirkjun places emphasis on maintaining a strong equity base supporting further development of the Company.

43. Subsequent events

Nothing has come forth after the balance sheet date, which would require adjustments or changes to the financial statements for the year 2019.

Notes, contd.

44. Significant accounting policies

The Group has adopted International Financial Reporting Standards, amendments thereto and interpretations adopted by the European Union at year-end 2019. It is the management's opinion that the implementation of new and amended standards and interpretations do not have significant effects on the consolidated financial statements. The Group has not adopted new or amended standards which have been issued but not entered into effect. It is management's estimate, that the application of other new standards and interpretations or amendments that have been endorsed but are not yet effective do not have a material effect on the consolidated financial statements of the Group.

New and amended IFRS Standards that are effective for the current year

In the current year, the Group, for the first time, has applied IFRS 16 Leases. IFRS 16 introduces new requirements with respect to lease accounting. It removes the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The Group has applied IFRS 16 using the modified retrospective approach, with no restatement of comparative information and the cumulative effect of the implementation recognised in equity at 1 January 2019. The Group has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease. The effects on the financial statements are immaterial.

At initial application on 1 January 2019 the Group recognised lease liabilities of USD 6,5 million and a right-of-use asset in the same amount in its Balance Sheet.

45. Basis of consolidation

Subsidiaries are entities controlled by the Company. A company controls an entity when it has the power to govern the investment, is exposed to, or has rights to variable returns from its involvement in the investment and has the ability to affect those returns through its power over the investment. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Financial performance of subsidiaries have been taken into account. When the Company's share of losses exceeds its interest in a subsidiary, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the subsidiary. In case of a profit on the operation of a subsidiary in subsequent periods, a share in their profit is not recognised until the share in a loss has been fully offset.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes, contd.

45. Basis of consolidation contd.:

Assets and liabilities of subsidiaries with another functional currency than the Parent Company's are translated to USD at the exchange rate ruling at the accounting date. Income and expenses of that operation are translated to USD at the average exchange rate of the year. The exchange rate difference arising from the translation to USD is entered as a specific item in the statement of comprehensive income and under equity. Amounts in the statement of cash flow are translated to USD at the average exchange rate of the year. The exchange rate difference arising from the translation to USD is entered as a specific item in the statement of cash flow.

46. Associated companies

Associated companies are those companies in which the Group has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50% of the voting power of another entity, including any other possible voting power.

The consolidated financial statements include share in the profit or loss of associated companies accounted for using the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the book value of an associated company the book value is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associated company. If in subsequent periods there is a profit on the operation of associated companies, the share in the profit is not recognised until the previous share in losses has been offset.

47. Operating revenues

Revenues from power sales and transmission of electricity consists of sales to power intensive industries and to sales companies on the wholesale market based on measured delivery of electricity during the year. Other service income is recognised when earned or upon delivery.

Revenues are recognised based on the nature of products sold and services delivered as follows:

Electricity generation

Electricity generation revenues are generated by the sale of electricity that is generated by hydroelectric power, wind power and geothermal heat.

Electricity generation revenues are generated by the delivery of electricity at an agreed price. The service obligation is to deliver electricity over time and the contractual price is the fee that Landsvirkjun expects to receive, on either the daily price or the contractual price. The service obligation is met over time and reflects consideration based on contractual price for each delivered unit which is the amount that is recognised as revenues. The right to make an invoice for the sale of electricity arises when electricity is generated and delivered and the right to make an invoice has been created for a fee which will, in most circumstances, be the same as the value for the customer.

Furthermore, the operation of Icelandic Power Insurance Ltd. is included in this segment. The purpose of Icelandic Power Insurance Ltd. is to manage insurances for Landsvirkjun's power stations.

Notes, contd.

47. Operating revenues contd.:

Electricity transmission

Landsnet carries out the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act no. 65/2003. Revenues for the transmission of electricity are based on the measurement of delivered units according to a valid tariff at each time. That tariff is dependent on a revenue cap defined in art. 12 of the Electricity Act and is subject to surveillance by the National Energy Authority. Revenues from transmission losses and system operation are also recognised based on the measurement of delivered units according to the valid tariff. That tariff is based on purchase price according to auctions and is not dependent on the revenue cap but subject to surveillance by the National Energy Authority. The right to recognise revenue and issue an invoice for the transmission of electricity is established when the electricity is transmitted and delivered.

Other

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate a telecommunication infrastructure which is necessary for shareholders' electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. takes care of sales of technical and operational advisory services to third parties and general research work, harnessing researches and projects for Landsvirkjun and related companies. Revenues are recognised for other income when a performance obligation according to an agreement has been fulfilled.

48. Interest income and expenses

Interest income and expenses are recognised in the income statement using the effective interest method. Interest income and expenses include bank rates, premium, realised interest rate swaps and other differences arising on initial book value of financial instruments and amounts on the date of maturity using the effective interest method.

Effective interest is the imputed rate of interest used in determining the current value of estimated cash flow over the estimated useful life of a financial instrument or a shorter period if applicable, so that it equals the book value of the financial asset or liability in the balance sheet. When calculating the effective interest rate, the Company estimates cash flow taking into account all contractual aspects of the financial instrument.

49. Other financial income and expenses

Other financial income and expenses include profit or loss on assets and liabilities held for trading and all realized and unrealized fair value changes and changes in foreign exchange rates.

50. Foreign currency transactions

Transactions in foreign currencies are recognised at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate ruling at the end of the year. The foreign currency gain or loss thereon relating to USD is recognised in the income statement. Non-monetary assets and liabilities measured at cost value in a foreign currency are translated to USD at the exchange rate ruling at the date of the transactions. Tangible assets and liabilities recognised in foreign currencies at fair value are translated to USD at the exchange rate ruling at the date of determination of fair value.

Notes, contd.

51. Impairment

a) Financial assets

The impairment model in IFRS 9 is based on the premise of providing for expected losses. IFRS 9 requires that the same impairment model apply to all of the following: (i) financial assets measured at amortised cost, (ii) financial assets mandatorily measured at fair value through other comprehensive income; (iii) lease receivables within the scope of IAS 17 Leases, (iv) contract assets within the scope of IFRS 15 Revenue from Contracts with Customers, and (v) certain loan commitments and financial guarantee contracts. This model is a change from the impairment model under the previous standard, IAS 39, which required impairment to be recognised based on incurred losses.

Expected impairment loss for financial assets is estimated based on what stage of the impairment model the relevant financial assets is classified:

Stage 1: expected credit loss is estimated based on 12 months expectation of default,

Stage 2: expected credit loss is estimated based on lifetime default,

Stage 3: objective evidence of impairment is in place about the expected credit loss of the financial asset.

At initial recognition, financial assets are classified in stage 1, with the exception of purchased or originated credit impaired financial assets. Financial assets are classified in stage 2 when there is a significant increase in credit risk from initial recognition. An estimate of significant increase in credit risk is performed at each financial reporting date. The Group has elected to classify trade receivables that do not include significant finance component, in stage 2 at initial recognition in accordance with the simplified approach in the standard.

At each financial reporting date, management estimates if there is an objective evidence of impairment of financial assets (stage 3). Financial assets are impaired if there is an objective evidence, as a result of one or more events that occurred after the initial recognition of the asset, that indicated that the expected cash flow from the assets will be lower than previously expected.

Impairment of financial assets at amortised cost is the difference between the book value of the assets and the expected cash flow, discounted with original effective interest rate. Impairment for assets held for sale is estimated based on the fair value of the financial assets at each balance sheet date.

Impairment is reversed if there is an objective evidence that an event has occurred after the impairment was recognised that changes the previous estimate of impairment. Reversal of impairment loss for financial assets at amortised cost and debt instruments classified as available for sale are recognised in profit or loss. Reversal of impairment loss for equity instruments that are classified as assets available for sale, is recognised in other comprehensive income.

The Group derecognises receivables when there are indicators of significant financial difficulties of debtors and very likely that the receivables will not be paid.

Change in estimated impairment for financial assets is recognised in profit or loss in the period when the estimate is performed.

Notes, contd.

51. Impairment, contd.:

b) Other assets

The carrying amounts of the Company's other assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with unspecified useful lives are tested annually for impairment.

An impairment loss is expensed if the carrying amount of the asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or cash generating units. Impairment loss is first recognised in the income statement and then to reduce the carrying amounts of the fixed assets in the cash generating unit.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its net fair value. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation.

52. Income tax

Income tax on the results for the year consists of current income tax and deferred income tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in statement of comprehensive income, in which case income tax is recognised among those items.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, in addition to adjustments made to current income tax of previous years.

A deferred income tax asset (liability) is recognised in the financial statements. Its calculation is based on the difference in balance sheet items, according to the tax return, on the one hand, and the consolidated financial statements, on the other hand. The difference thus arising is due to the fact that the tax assessment is based on premises other than the Group's financial statements and is in main respect a temporary difference as expenses are entered in the financial statement in another period than in the tax return. Calculation of deferred tax is based on the expected tax ratio when temporary differences are estimated to be reversed based on current law at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against the asset. The tax asset is calculated at each reporting date and decreased to the extent that is considered likely that it will not be utilised against future taxable profit.

Notes, contd.

53. Property, plant and equipment

Property, plant and equipment are initially measured at cost.

The cost of renewing single items of fixed asset is capitalised if it is considered likely that the proceeds on the asset will revert to the Company and the cost can be measured reliably. All other cost is expensed in the income statement as it is incurred.

The Group's transmission and telecommunication systems are recognised at a revalued cost in the balance sheet, which is their fair value less depreciation from the date of revaluation. The revaluation of those assets is carried out on a regular basis. All value increase due to the revaluation is recognised in the revaluation account among equity after income tax effect. Depreciation of the revalued cost is recognised in the income statement. Upon the sale, depreciation or disposal of an asset, the part of the revaluation account pertaining to the asset is transferred to retained earnings.

Other operating assets are capitalised at cost less accumulated depreciation and impairment.

Initial value of fixed assets includes the estimated cost of demolition following their use. Estimated demolition cost of power lines has been measured at a discounted value based on the useful life and an obligation in relation thereto has been recognised among long-term liabilities. A change in the obligation due to the discounted value is recognised through the income statement in addition to depreciation of demolition cost.

Cost value consists of all cost incurred due to the acquisition of the asset. Cost value of fixed assets constructed in own account is the aggregate cost of construction, such as cost of material and salaries in addition to all other costs the Company incurs in making the asset operative.

If single items of fixed assets have different estimated useful lives, they are divided in accordance with their different useful lives.

Interest expenses on loans used to finance the cost value of projects are capitalised at the time of construction.

Profit or loss on the sale of fixed assets is the difference between the sales value and the book value of the asset and is recognised in the income statement.

Notes, contd.

53. Property, plant and equipment, contd.:

Depreciation

Depreciation is calculated as a fixed annual percentage based on the estimated useful lives of the operating assets.

Depreciation method, estimated useful life and residual value are revalued at each accounting date.

Depreciation ratios and useful life are specified as follows:

	Depreciation	Useful life
Power stations:		
Power houses and other structures	1.67%	60 years
Machinery	2.5-6.67%	15-40 years
Dams and waterways	1.67-3.33%	30-60 years
Thermal stations	1.67-6.67%	15-60 years
Windmills	5.00%	20 years
Substations	2.5-5%	20-40 years
Power lines	1.67-5%	20-60 years
Optical fibre	4-10%	10-25 years
Other telecommunication equipment	6-20%	5-17 years
Office buildings	2.00%	50 years
Lease assets	2-50%	2-50 years
Equipment	10-25%	4-10 years
Vehicles	10-20%	5-10 years

54. Intangible assets

Intangible assets are recognised at cost value, less accumulated impairment loss and amortisation.

Expenditure for general research cost is expensed in the period it incurs. Development cost for future power projects is capitalised among fixed assets, such as cost of materials, salary cost and all cost incurred by the Company in relation to capitalised development cost. Development cost is only capitalised if there is probability of future economic benefit and the Company intends and is able to conclude, use or sell it. The useful life of development cost is assessed to be unlimited until a decision is made concerning its use or sale, thus the cost is not amortized at this stage but account is taken for possible impairment loss if a project changes.

Water and geothermal rights are capitalised in the balance sheet at cost value as intangible assets with unlimited useful life since it cannot be determined when these rights will no longer be financially viable.

Other intangible assets are stated at cost less accumulated amortisation and impairment loss.

Subsequent cost is only capitalised if it increases the estimated future economic benefit of the asset it relates to. All other cost is expensed in the income statement when incurred.

Amortisation is calculated on a straight line basis, based on the estimated useful lives of intangible assets from the date that they become applicable. Amortisation and estimated useful life is specified as follows:

	Amortisation	Useful life
Software	25%	4 years

Notes, contd.

55. Lease agreements

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of future lease payments, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the exercise price of purchase options if the Group expects to exercise the option.

Lease payments are divided into interest expenses and payments of principal which are deducted from the lease liability. The Group remeasures the lease liability if the lease term has changed, when lease payments change in an index or rate or when a lease contract is modified and the modification is not accounted for as a separate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rent payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As permitted by IFRS 16, The Group applies a practical expedient that allows a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

56. Financial instruments

a) Non-derivative financial assets

Non-derivative financial assets are recognised when the Company becomes a part of contractual provisions of the relevant financial instrument.

Financial assets are derecognised if the Company's contractual right to cash flow due to the asset expires or the Company transfers the assets to another party without holding back control or almost all the risk and gain involved in the ownership. The component of the transferred financial assets arising or retained by the Company is recognised as a specific asset or liability.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and financial assets available for sale.

Notes, contd.

56. Financial instruments contd.:

i) Financial assets measured at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value in the balance sheet, and changes therein are recognised in the income statement.

Financial assets at fair value through profit or loss are shares in other companies and marketable securities.

ii) Financial assets at amortised cost

Financial assets is measured at amortised cost if it meets the following two conditions and is not designated at fair value through profit or loss: (i) the financial assets business model is to hold the financial asset to collect the contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially recognised at fair value plus all transaction costs. After initial recognition the financial assets are measured at amortised cost net of any write down for impairment.

Financial assets at amortised cost include bonds, cash and cash equivalents, trade receivables and other receivables. Cash and cash equivalents includes funds and non-restricted bank balances with maturity date of three months or less.

iii) Financial assets at fair value through other comprehensive income

If the financial assets are held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets the financial instrument is measured at fair value through other comprehensive income. It is permitted to make a irrevocable election at initial recognition to measure equity instruments at fair value through other comprehensive income, if they are not held for trading or contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

b) Non-derivative financial liabilities

Non-derivative financial liabilities are initially measured at fair value plus direct transaction costs. Subsequent to initial recognition the liabilities are recognised at the amortised cost value based on effective interests.

The Group derecognises a financial liability when the contractual obligations due to the debt instrument expire.

The Company's non-derivative financial liabilities are loans, accounts payables and other payables.

c) Derivative financial instruments

The Company enters into derivative financial instruments to hedge its foreign currency, interest rate and aluminium price risk exposures. Derivative financial instruments are recognised initially at fair value. Direct transaction cost is recognised in the income statement as it incurs. Subsequent to initial recognition, derivative financial instruments are recognised at fair value in the balance sheet and fair value changes are recognised in the income statement among financial income and expenses. Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies.

i) Separable embedded derivatives

Embedded derivatives where host contract is not a financial instruments are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, other instruments with the same provisions as the embedded derivative would be defined as a derivative and the hybrid contract is not stated at fair value in the income statement.

Notes, contd.

56. Financial instruments contd.:

Changes in the fair value of separable embedded derivatives are recognised in the income statement among financial income and expenses.

57. Inventories

Inventories are stated at the lower of the cost value or the net sales value. Cost value of inventories is based on "the First In First Out method" and includes cost incurred upon the purchase of the inventories and in bringing them to the sales location and in a saleable state.

58. Cash and cash equivalents

Cash and cash equivalents consist of cash, short-term market securities and demand deposits.

59. Equity

The Group's equity is divided into owners' contribution, revaluation account, translation difference, restricted reserves, other equity and minority interest. The Parent Company's initial capital amounts to USD 587 million.

60. Employees' benefits

a) Defined contribution plan

Cost due to contribution to defined benefit plans is expensed in the income statement among salaries and salary related expenses when incurred.

b) Defined benefit plan

The Company's obligation due to defined benefit plans is calculated by estimating the future value of defined pension benefits accrued by current and former employees in current or previous periods. The benefits are discounted in order to determine their present value. An actuary has calculated the obligation on the basis of a method, which is based on accrued benefits. Actuarial changes in the obligation are recognised among operating items under equity in the statement of comprehensive income. Other changes are recognised in the income statement.

61. Provisions

Obligations are recognised in the balance sheet when the Company has a legal obligation or entered into obligations due to past events, it is considered probable that they will be settled and they can be reliably measured. The obligation is assessed on the basis of estimated future cash flow, discounted on the basis of interests reflecting market interests and the risk inherent with the obligation.

62. Operating segments

A segment is a distinguishable component of the Group, which is subject to risks and returns, including income and expenses related to other segments of the Group. In determining the distribution of resources to segments and evaluating the results, the return of the segments is reviewed by management on a regular basis.

Segment operating results, assets and liabilities consist of items that can be directly linked to each segment, in addition to the items that can be reasonably divided into segments.

63. Other matters

The Icelandic Minister of Tourism, Industry and Innovation, has appointed a workgroup to lead discussions on the State's purchase of Landsnet hf. Landsnet operates the Icelandic transmission system and control of power systems. Landsvirkjun owns 64.7% of Landsnet.

Negotiations with the government are ongoing for the settlement of water and land rights. A provision has been estimated.

Appendix I: Statement of Corporate Governance

Legislation and corporate governance

Landsvirkjun is a partnership company regulated by the Act on Landsvirkjun No 42/1983, as amended. Landsvirkjun also operates according to a general partnership agreement from April 2012 which also states that Landsvirkjun must abide by the regulations on General Partnerships, on matters not covered by the partnership agreement.

The Company also adheres to the fifth edition of the Icelandic Guidelines on Corporate Governance, published by the Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland (English version available on the Iceland Chamber of Commerce website). The guidelines relating to the Share Registry and the Nomination Committee do not apply to Landsvirkjun, as the Company is a partnership company, regulated by Act No 42/1983, as amended.

Internal control and risk management

Landsvirkjun's internal controls are based on a structure that supports the goals of effectiveness and efficiency in its operations.

The main role of Landsvirkjun's Audit Committee, in accordance with Article 2 of its operating procedures, is to monitor the organisation and effectiveness of the Company's internal controls, internal auditing and risk management. The Committee shall, in accordance with the Company's operating procedures, evaluate the need for an internal auditor and submit, as appropriate, its recommendations on the tasks to be undertaken by the internal auditor, including their scope and organisation. For further information on the role of the Audit Committee, see the section 'The Board of Directors and sub-committees of the Board'.

Landsvirkjun's Board of Directors approves the Company's Risk Management Policy. The scope of the Risk Policy extends to the parent company, but further information on corporate governance for the group is included in the sections from the CEO, Deputy CEO and Executive Vice Presidents below. According to the Risk Policy, the roles and responsibilities are defined in order to ensure that risk is efficiently managed.

- The Board's Risk Committee, nominated by the Board, verifies the effectiveness of risk management within the Company and supports the Board in monitoring key risks and risk management procedures.

- The Company's Risk Management Committee reassesses and approves risk management procedures within the Company. The committee is a consultation forum for risk management and also ensures that the Company's Risk Policy is adhered to. The CEO, Deputy CEO and the Executive Vice President of the Finance Division are members of the committee. The CEO serves as its Chairman.

- Executive Directors are responsible for identifying and assessing risks within their divisions, as well as implementing appropriate risk mitigation controls.

- The Director of Risk Management coordinates risk management and is responsible for its realistic implementation.

Landsvirkjun's Company Compliance Officer is Ingvar Christiansen, a lawyer within the Company's Legal Division. Landsvirkjun's Deputy Company Compliance Officer is Þorgerður Marinósdóttir, a Certified Public Accountant within Landsvirkjun's Finance Division.

Corporate social responsibility and ethical standards

Landsvirkjun's Corporate Social Responsibility Policy dates back to 2012. The Policy is under continuous review as sustainable operations are one of the Company's key objectives. Landsvirkjun's Social Responsibility Policy states that the Company's role is to create value, to respect and protect natural resources and the environment and to share its expertise in order to effectively contribute to society. The Policy is approved by the Company's Executive Board.

Appendix I: Statement of Corporate Governance, contd.

Landsvirkjun has defined its Code of Conduct which is presented in two documents: The Employee Code of Conduct and Supplier Code of Conduct. These criteria are designed to support employees and suppliers in decision-making. Landsvirkjun's Supplier Code of Conduct can be accessed on Landsvirkjun's website. The Code of Conduct is approved by the Company's Executive Board.

The government's general ownership policy encourages board diversity, where board members should be chosen according to their diverse educational backgrounds and extensive skills, expertise and experience in operations and the appropriate area of business. Gender diversity should also be considered, as well as any conflicts of interest. Landsvirkjun's Human Resources Policy states that the skills, education and experience of applicants should be taken into consideration and that gender diversity should be adjusted as much as possible, to strengthen the Company's workforce.

Further information on policy and projects pertaining to the aforementioned can be found in Appendix II on non-financial information, and on Landsvirkjun's website.

Role, goals, vision and values

Landsvirkjun's role is to maximise the potential yield and value of the natural resources it has been entrusted with in a sustainable, responsible and efficient manner.

Landsvirkjun's values are progressiveness, prudence and reliability.

The Board of Directors approves the Company's policy.

The Company has defined the following goals to uphold this role:

- To ensure efficient electricity generation and development
- To secure a diverse customer base
- To connect prices with the European energy market
- To inspire and promote expertise and talent
- To encourage unity and support from stakeholders via open and clear communication

Landsvirkjun's vision is to be a progressive energy company in the field of renewable energy. The Company operates within an international environment and hopes to be amongst the very best in generating and selling energy.

Landsvirkjun is an energy company owned by the Icelandic State. The purpose of Landsvirkjun in accordance with the Act on Landsvirkjun no. 42/1983 is to engage in operations in the energy sector and any other business and financial activities pursuant to the decisions of the board of directors at any time. Landsvirkjun is the owner of power stations, various structures, water rights and equipment that the Company has acquired through sectoral laws or contracts.

Appendix I: Statement of Corporate Governance, contd.

The Board of Directors and sub-committees of the Board

The Board of Directors

Landsvirkjun's Board of Directors is appointed by the Minister of Finance and Economic Affairs at the Company's Annual General Meeting. The Board is responsible for defining the Company's policies and ensuring the effective and efficient operation of the Company. The Board is also responsible for monitoring the Company's accounts, financial position and the management of its assets. The Board of Directors and CEO are responsible for the management of the Company, as described in the section CEO, Deputy CEO and Executive Vice Presidents below. The Board's Operating Procedures can be found on Landsvirkjun's website. The Board's members are independent and unaffiliated with the Company, the day-to-day management of the Company and its owner, pursuant to the Corporate Governance Guidelines published by the Chamber of Commerce in 2015.

Landsvirkjun's Board of Directors:

Jónas Þór Guðmundsson, Chairman of the Board, was born on the 11th of May, 1968 and lives in Hafnarfjörður. Jónas was first elected Chairman of the Board at the Company's Annual General Meeting on the 2nd of April, 2014. He is a Supreme Court Lawyer and has owned his own law firm since 1999. He has a Cand. Jur. from the Faculty of Law of the University of Iceland. He was previously Chairman of the Icelandic Bar Association and a member of the election supervision committee and wage council for the South-West constituency. He was a legal expert at the Ministry of Justice and Ecclesiastical Affairs, Director of Education at the Faculty of Law at the University of Iceland and a lecturer at the Faculty of Law at the University of Iceland. In addition to his principal occupation, he also held the position of Adjunct at the Faculty of Law at Reykjavík University. Jónas is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

Álfheiður Ingadóttir, Vice-Chairman of the Board, was born on the 1st of May, 1951 and lives in Reykjavík. Álfheiður was elected to Landsvirkjun's Board of Directors on the 2nd of April, 2014, previously appointed to Landsvirkjun's Board of Directors by the Reykjavík City Council from 2003-2006. Álfheiður holds a BS degree in biology from the University of Iceland and is currently an alternate Member of Parliament for the Left-Green Movement Party and an editor at the Icelandic Museum of Natural History. She was a Member of Parliament for the Reykjavík constituency from 2007-2013. Álfheiður was the Minister of Health from 2009 - 2010, and Chairman of the Left-Green Movement Party from 2012-2013. She was the Publishing Director of the Icelandic Institute of Natural History from 1997-2007 and editor of Náttúrufræðingurinn, a magazine published by Hið íslenska náttúrufræðifélag from 1997-2006. She worked as an Information Representative for the Women's Shelter from 1994-1995 and as a journalist for Þjóðviljinn from 1977-1987. Álfheiður is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

Jón Björn Hákonarson was born on the 27th of January, 1973 and lives in Norðfjörður, Fjarðabyggð. Jón Björn was elected to Landsvirkjun's Board of Directors on the 10th of April, 2018 and was previously on the Board from 2014-2017. Jón Björn has been President of the Fjarðabyggð Town Council and Vice-chairman of the Municipal Council since 2010. He is also a Board Member of the Icelandic Association of Local Authorities, Sparisjóður Austurlands, the School Board at Verkmenntaskóli Austurlands and is involved in various committees for Fjarðabyggð, other public entities and municipal cooperation. He is also Party Secretary for the Progressive Party. Jón Björn is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

Appendix I: Statement of Corporate Governance, contd.

Guðfinna Jóhanna Guðmundsdóttir was born on the 14th of April, 1969 and lives in Seltjarnarnes. Guðfinna was elected to Landsvirkjun's Board of Directors on the 10th of April, 2018. Guðfinna is a lawyer and founded the law firm Fasteignamál Lögmansstofa in 2002. She previously worked as a lawyer at the Ministry of Social Affairs, at the Housing Financing Fund, National Council of State Housing Agencies and as a Representative of the District Commissioner in Vestmannaeyjar. She was a member of the City Council for the Progressive Party and Airport Friends from 2014-2018. Guðfinna also sits on the board of the Homeowner's Association, is the Chairman of the Examination Committee of Property Declaration and the Chairman of the Examination Committee of Tenants. Guðfinna is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

Gunnar Tryggvason, was born on the 15th of August, 1969 and lives in Reykjavík. Gunnar was elected to Landsvirkjun's Board of Directors on the 10th of April, 2018. Gunnar has a B.Sc in electrical engineering and an M.Sc. in power engineering and works as an Assistant Port Director at Faxaflóahafnir. He previously worked as a Senior Manager at KPMG from 2009-2018. Gunnar also worked in Corporate Finance at Landsbankinn and as a CFO at Enex hf. Gunnar is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

Landsvirkjun's Board of Directors evaluates the Company's strategy, operations, financial position, its own work and the CEO's. The Board annually reviews the presentation, content and form of the written information, submitted by the CEO to the Board, pertaining to the Company's operations and financial position. The Board holds an annual meeting, without the CEO or other Company staff, to discuss the Company's policies and Board procedures.

Audit Committee

Landsvirkjun's Audit Committee is subject to chapter IX of Act No. 3/2006 on Financial Statements, cf. Act No. 80/2008. The Board of Directors sets out the standard procedures for the committee to further comply with the law. The role of Landsvirkjun's Audit Committee, in accordance with Article 2 of its Rules of Procedure, is to:

- a) Monitor processes in the preparation of financial statements.
- b) Monitor the organisation and effectiveness of the Company's internal control, internal auditing and risk management.
- c) Monitor the auditing of the Company's financial statements and consolidated financial statements.
- d) Assess if the auditors or auditing firms employed by Landsvirkjun comply with the laws and supervisory standards generally adhered to by auditors and auditing firms.

Pursuant to paragraph 3, Article 8 of the Act on Landsvirkjun no. 42/1983, the general meeting elects a certified public accountant or auditing firm to audit the financial statements of the Company, according to the proposal from the Icelandic National Audit office. Pursuant to the Act on the Auditor General and the Auditing of Government Accounts, the election of an auditor or audit firm shall be decided in consultation with the audit committees, when applicable. Landsvirkjun's Audit Committee serves an advisory role for the Board of Directors and acts on its behalf. The Committee does not have executive power. The Audit Committee has a total of three members consisting of two Board members: Jónas Þór Guðmundsson and Gunnar Tryggvason and Heimir Haraldsson CPA, who is the Chairman of the Committee. The Audit Committee may seek advice, whenever necessary, to fulfill its supervisory duties. The Committee meets at least four times during the Committee's tenure.

Appendix I: Statement of Corporate Governance, contd.

Risk Management Committee

Landsvirkjun's Risk Management Committee shall, according to Article 2 of its Rules of Procedure:

- a) Monitor Landsvirkjun's risk management, including risk policy and risk appetite.
- b) Present the Board with any proposed changes to the risk management structure, when necessary.
- c) Monitor the execution of risk management and evaluate its effectiveness.
- d) Review Landsvirkjun's key risks and the Company's risk profile.
- e) Review emergency management procedures, contingency plans and business continuity plans.
- f) Oversee the Company's compliance with the law and mandatory disclosure requirements.
- g) Monitor and inform the Board of Directors on the status of damage and liability insurance.
- h) Take on the responsibilities assigned to the Committee, by Landsvirkjun's Board of Directors, at any given time.

The Risk Committee has three Board members, all appointed by the Board of Directors: Jónas Þór Guðmundsson who acts as Chairman, Álfheiður Ingadóttir and Guðfinna Jóhanna Guðmundsdóttir. The committee meets as often as required.

Remuneration Committee

Landsvirkjun's Remuneration Committee shall, according to Article 2 of its Rules of Procedure:

- a) Submit a proposal regarding the Company's remuneration policy and its review, to Landsvirkjun's Board of Directors.
- b) Monitor the execution of the remuneration policy.
- c) Submit a proposal on the CEO's wages and other benefits to Landsvirkjun's Board of Directors.
- d) Monitor the development of Landsvirkjun's remuneration and human resources matters, including wage equality.
- e) Follow up on the completion of agreements made with the CEO and other employees, under the auspices of the Board, on salaries and other employment terms.
- f) Propose remuneration for Landsvirkjun's Board of Directors and the members of the Board's sub-committees for the current term of office, to be submitted to the annual general meeting.
- g) Take on the responsibilities assigned to the Committee, by Landsvirkjun's Board of Directors, at any given time.

The Remuneration Committee has three Board members, all appointed by the Board of Directors: Jónas Þór Guðmundsson, who acts as Chairman, Álfheiður Ingadóttir and Jón Björn Hákonarson. The committee meets as often as required and reports annually to the Board.

During the period 1.1.2019-31.12.2019: The Board of Directors held 15 meetings, the Audit Committee held 5 meetings, the Remuneration Committee held 3 meetings and the Risk Committee held 2 meetings. All the meetings were fully attended.

Appendix I: Statement of Corporate Governance, contd.

CEO, Deputy CEO and Executive Vice Presidents

Hörður Arnarson is Landsvirkjun's CEO. The Board approves the CEO's Operating Procedures. The CEO handles the day-to-day operations of the Company and must comply with the policy and instructions set out by the Board of Directors. Day-to-day operations do not include measures that are unusual or significant. The CEO can only take such measures with the explicit permission of the Board of Directors, unless awaiting the Board's decision would prove disadvantageous to the Company's operations. The Board shall be notified immediately of any measures taken under such circumstances. The CEO shall ensure that the Company accounts are kept in accordance with the relevant laws and practices and shall also ensure the secure handling of its assets. The CEO supervises and monitors Landsvirkjun's subsidiaries and associates. The Company is in the process of developing an ownership policy for the ownership of individual companies within the Group, where corporate governance procedures will be consolidated.

Kristín Linda Árnadóttir is the Deputy CEO of Landsvirkjun. The Deputy CEO is the substitute for the CEO in his absence and manages the CEO's Office. The Deputy CEO handles any collective matters of the Company, as well as ensuring good governance practices. The CEO's office has support divisions, which process any collective matters for Landsvirkjun.

The Executive Board consists of the CEO, Deputy CEO, Executive Vice Presidents and others, dependent upon the CEO's decision. There were five Executive Vice Presidents at year-end.

Óli Grétar Blöndal Sveinsson is the Executive Vice President of the Research and Development Division. The role of the division is to oversee the preparation of new power projects, conducting research and monitoring power stations in operation. The division is responsible for the efficient implementation of power projects, increased flexibility in energy generation, supporting innovation in energy generation and the long-term evaluation of energy reserves.

Gunnar Guðni Tómasson is the Executive Vice President of the Project Planning and Construction Division. The role of the Division is to oversee Landsvirkjun's power projects, from the preparation stage to their completion. The Division monitors costs and safeguards the quality and progress of the various projects, in accordance with the criteria, plans and needs outlined by the Company.

Einar Mathiesen is the Executive Vice President of the Energy Division. The role of the division is to ensure that electricity generation and delivery is secure and efficient and fulfills the terms of the agreements signed with Landsvirkjun's customers.

Rafnar Lárusson is the Executive Vice President of the Finance Division. The role of the division is to create a foundation for efficient operations and to promote maximum results in all units of the Landsvirkjun Group.

Stefanía G. Halldórsdóttir is the Executive Vice President of the Marketing and Business Development Division. The role of the division is to maximise the Company's revenue by analysing new business opportunities, product development, the promotion and sales of products and services, negotiating contracts and the follow up of existing contracts.

Regulatory compliance

The Company has not violated any laws or regulations according to any court or administrative order in 2019.

Arrangements for communication with the owners

Communication with the owners mostly takes place at the Company's Annual General Meeting and extraordinary general meetings. See more about communication with owners in the Board's Rules of Procedure.

Appendix II: Non-financial information

Business model

Landsvirkjun is an energy company owned by the Icelandic State which produces electricity from renewable energy sources such as hydroelectric power, geothermal energy and wind power. The Company produces over 70% of the country's electricity and is by far the largest producer of electricity in Iceland. Landsvirkjun operates in an international competitive market, offering competitive agreements, ensuring the long-term secure delivery of electricity to various industries. The Company's share in the world market is negligible. Landsvirkjun sells electricity wholesale to retail sales companies who subsequently sell to homes and businesses.

Sustainability and social responsibility – policy and focus 2019

See Appendix I: Statement of Corporate Governance for more information about the Company's Corporate Social Responsibility Policy and ethical standards.

Work on the implementation of the Global Reporting Initiative (GRI) Standards continued in 2019. The standards offer an interrelated structure and represents and describes the global best practice for reporting on a range of economic, environmental and social impacts. The standards also serve as a guide for goal setting, change management and performance measurement within the scope of sustainable operations.

GRI implementation is part of Landsvirkjun's comprehensive approach to achieving sustainable operations and supports and improves the Company's current focus areas. An extensive discussion took place with the Company's stakeholders, as part of the GRI implementation process, in 2019. An emphasis was placed on discussion with Company staff and a special training day, dedicated to sustainability, was held to support the initiative. This was subsequently followed up with a survey which was also sent to a few external stakeholders. Further details can be found in the Company's Annual Report. Discussions will continue with key stakeholder groups to further establish the materiality of each of the topics of the GRI Standards.

Landsvirkjun continues to support the UN Global Compact (UN GC) initiative by reporting on the Company's work pertaining to the UN GC principles in the areas of environment, labor law, human rights and anti-corruption. The Company's performance in these areas is reported in the Company's 'Communication on Progress report' and in its 2019 Annual Report.

Landsvirkjun supports the UN Sustainable Development Goals (SDGs). The Company has chosen to focus on three of the goals: Climate action, affordable and clean energy and gender equality. The Company held SDG workshops in October, 2019. All our staff members will eventually participate in this type of workshop, the purpose of which is to provide employees with the opportunity to familiarise themselves with the goals and educate them on how to incorporate them in their projects and daily tasks. Ten workshops will be held in total, five of which will be held in Landsvirkjun's power stations in the Southern, Northern and Eastern region of Iceland. Seven workshops were held in 2019.

Landsvirkjun's operations can have a widespread impact on the community, especially those in close proximity to the Company's power stations. One of the Company's policies is to achieve consensus with stakeholders through open dialogue. A stakeholder analysis and communication plan is completed for all operational units and construction projects, with the aim of communicating the activities of the Company as effectively as possible. Annual meetings were held in 2019 for sustainability projects in the East and North-east regions of Iceland, as well as open meetings and consultation meetings.

Appendix II: Non-financial information, contd.

Landsvirkjun supports a variety of projects that benefit the community every year, through its Community Fund and in various other ways. Further information can be found in Landsvirkjun's Annual Report.

Risk Management

Landsvirkjun follows a formal risk management process to identify and control the Company's financial and non-financial risks. The objective of the process is to map key risk factors and take appropriate action, to reduce the likelihood of undesirable events and their potential effects on image, finances, health and safety and the environment. See Appendix I: Statement of Corporate Governance, for more information about Landsvirkjun's risk management.

Key performance indicators

The implementation of the Global Reporting Initiative (GRI) standard and open discussion with stakeholders will make the Company better equipped to evaluate its key performance indicators when it comes to non-financial disclosures. Work has already begun with the aim of providing relevant information next year. In 2019, Landsvirkjun renewed a revolving credit facility where the terms of interest are linked to Landsvirkjun's performance on certain sustainability performance indicators. More information about these indicators can be found in the relevant sections below.

Environment

Landsvirkjun has a certified environmental management system, in accordance with the international standard ISO 14001. The Company has worked systematically towards preventing and mitigating the environmental impact of its operations, following the introduction of its Environmental Policy in 2006. The Company also follows an action plan which is consistent with its Environmental Policy. One of Landsvirkjun objectives is to ensure that no environmental incidents occur in the Company's operations.

Indicator: Landsvirkjun maintained certification of ISO 14001 in the BSI audit in 2019. (2018: Maintained certification).

Climate action is currently one of the world's greatest challenges. Landsvirkjun's carbon footprint is among the lowest in the world, when compared with other energy generation companies. The Company publishes an annual report on all direct emissions from its operations in CO₂ equivalents as well as indirect emissions in the value chain. Emissions from operations have decreased in recent years. Landsvirkjun intends to become carbon neutral in 2025.

An action plan was drawn up in 2019 in order to achieve this milestone. The plan covers the period from now until 2030 and is based on the results of carbon footprint mapping conducted by the Company in recent years. The priorities in developing the action plan were as follows: 1. Preventing new emissions – 2. Reducing existing emissions – 3. Mitigation measures.

Appendix II: Non-financial information, contd.

Action taken during the year to reduce greenhouse gas emissions, includes the following:

- **Internal carbon prices.** Emissions, or future costs of emissions, are included in major financial decisions, ranging from the procurement of consumer goods to the selection of new power station options.

- **Decarbonisation of transport.** Landsvirkjun is an active participant in electricity exchange in transport in Iceland. The Company is a member of Samorka, an association of energy and utility companies in Iceland, a shareholder in Íslensk NýOrka and a member of a cooperative forum on energy exchange called Green Energy. The goal is that 25% of the Company's car fleet will be eco-friendly by 2020. In the next few years, Landsvirkjun will explore its options for reducing the use of fossil fuel at power stations and will also analyse the technical possibilities for energy exchange in back-up power.

Indicator: At the end of 2019, 30% of the cars owned by Landsvirkjun were eco-friendly (2018: 22%).

- **Wetland restoration.** In 2019, wetland areas were restored for the first time as a part of the Company's climate action plan. The goal is to restore the wetland areas as close to their original state as possible. Consequently, an emphasis is also placed on monitoring changes in greenhouse gas emissions and vegetation settlement.

Landsvirkjun submits an annual report on its carbon emissions to the CDP, formerly the Carbon Disclosure Project. Landsvirkjun submitted its carbon emissions information to CDP for the third time in the summer of 2019. Feedback was received at the beginning of 2020 and the result was a B grade, which is above average when compared with other energy companies that submit to the CDP.

Human resources

Gender equality has been a priority for Landsvirkjun in recent years with targeted work carried out in all areas of the Company. A three-year action plan has been developed (2019-2021) and 17 improvement projects have been defined to achieve these goals. One of the goals is to achieve gender equality in all areas of operation. One of the objectives is that the ratio of female managers will be higher than 40% by the end of 2021.

In 2019, Landsvirkjun received the Hvatningarverðlaun jafnréttismála (Encouraging equality award) for gender equality initiatives. The award brings attention to companies focused on equality in their operations. Read more about Landsvirkjun's Gender Equality Policy in the 2019 Annual Report.

Indicator: At the end of 2019, the ratio of female managers at Landsvirkjun was 31%. (2018: 26%)

Landsvirkjun received the Gold Standard by PwC for Wage Equality for the fifth time in 2019. The Company also received the standard in 2013, 2015, 2017 and 2018. The review revealed that the base salary for women was 1.5% higher than the base salary for men. The total salary for women was 1.2% higher than the total salary for men. The difference between the genders for both base salary and total salary is within the limits set by PwC for equal pay. The wage equality review by PwC supports the review of Landsvirkjun's Equal Pay Management System in accordance with the Equal Pay Standard ÍST 85:2012. Landsvirkjun's goal is to maintain the Gold Standard by PwC for Wage Equality.

Indicator: The Company received the PWC Gold Standard in 2019 (2018: Gold Standard PwC).

Appendix II: Non-financial information, contd.

Landsvirkjun is at the forefront of health and safety and employee well-being matters. Landsvirkjun works according to a so-called zero-accident policy (no absence-related incidents). The Company is also certified according to the ISO 45001 occupational health and safety standard which requires the continuous improvement of health and safety matters. In 2019, there was one absence-related incident, so the goal of accident-free operations was not achieved.

Indicator: Landsvirkjun's H-number at the end of 2019 was 0.31 (2018: 0.61).

Indicator: Landsvirkjun maintained ISO 45001 certification in the BSI audit in 2019 (2018: Maintained certification).

Human rights

An emphasis has been placed on the improvement of gender equality in the Company's operations. Changes to corporate culture, to promote gender equality, was the focus in 2019.

Landsvirkjun's Board of Directors approved the regulations on the corporate supply chain in 2016. The regulations were developed with the aim of safeguarding the rights of Landsvirkjun's workforce, including contractors, subcontractors and temporary workers. These include the right to fair wages, employee benefits and medical insurance.

Landsvirkjun's existing policies are intended to safeguard the human rights of all parties involved in Landsvirkjun's operations. A special human rights policy has therefore not been developed.

Anti-corruption and bribery policy

Please see Appendix I: Statement of Corporate Governance, for information on the Landsvirkjun's code of ethics for employees, suppliers and service providers. In 2020, Landsvirkjun will focus on strengthening the Company's processes, in cooperation with various experts, to reduce the risk of bribery and corruption.